UICI
Form 10-Q
November 14, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003.

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM ------------- TO -------------
COMMISSION FILE NO. 001-14953

UICI
(Exact name of registrant as specified in its charter)

Delaware	75-2044750
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9151 Grapevine Highway, North Richland Hills, Texas	76180
(Address of principal executive office)	(Zip Code)

Registrant's telephone number, including area code (817) 255-5200

Not Applicable

Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ].

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [X] No [ ].

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock, $.01 Par Value, 46,313,310 shares as of November 7, 2003.

INDEX

UICI AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

UICI AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	SEPTEMBER 30, 2003 (UNAUDITED)	DECEMBER 2002

ASSETS		
Investments		
Securities available for sale --		
Fixed maturities, at fair value (cost: 2003--$1,189,631; 2002--$1,051,710)	$1,232,790	$1,088,1
Equity securities, at fair value (cost: 2003--$23,572; 2002--$52,526)	67,793	81,2
Mortgage and collateral loans	6,090	7,3
Policy loans	18,433	19,1
Investment in Healthaxis, Inc.	--	4,9
Short-term investments	99,283	138,8
Total Investments	1,424,389	1,339,6
Cash	32,881	16,2
Student loans	99,814	95,4
Restricted cash	47,219	77,7
Reinsurance receivables	51,395	59,1
Due premiums and other receivables	79,413	57,7
Investment income due and accrued	22,403	20,7
Federal income tax assets	2,416	5,8
Deferred acquisition costs	85,436	89,3
Goodwill and other intangible assets	45,765	30,7
Property and equipment, net	75,989	77,5
Other assets	8,950	8,4
AMS assets held for sale	1,910,245	1,842,7
	$3,886,315	$3,721,5
LIABILITIES AND STOCKHOLDERS' EQUITY		
Policy liabilities		
Future policy and contract benefits	$ 431,102	$ 423,2
Claims	518,090	466,2
Unearned premiums	143,295	121,7
Other policy liabilities	16,671	17,7
Accounts payable	22,031	18,0
Other liabilities	118,977	125,1
Debt	3,951	7,9
CFLD student loan credit facility	150,000	150,0
AMS liabilities held for sale	1,872,818	1,787,0
Net liabilities of discontinued operations, including reserve for losses on disposal	28,495	19,2
	3,305,430	3,136,4
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, par value $0.01 per share	--	
Common stock, par value $0.01 per share	516	5
Additional paid-in capital	254,907	236,0
Accumulated other comprehensive income	56,832	42,3
Retained earnings	338,625	364,0
Treasury stock, at cost	(69,995)	(57,9
	580,885	585,0
	$3,886,315	$3,721,5

NOTE: The balance sheet data as of December 31, 2002 have been derived from the audited financial statements at that date.

See Notes to Consolidated Condensed Financial Statements.

UICI AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF INCOME (LOSS) (UNAUDITED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS SEPTEMBER 3
	2003
REVENUE	
Premiums:	
Health (includes amounts received from related parties of $3,619 and $2,317 for the three months ended September 30, 2003 and 2002, respectively, and $8,939 and $5,673 for the nine months ended September 30, 2003 and 2002, respectively)	$ 395,809
Life premiums and other considerations	7,953
	403,762
Investment income (includes amounts received from related parties of $9 and $2 for the three months ended September 30, 2003 and 2002, respectively, and $14 and $3 for the nine months ended September 30, 2003 and 2002, respectively)	19,380
Other income (includes amounts received from related parties of $343 and $1,927 for the three months ended September 30, 2003 and 2002, respectively and $3,051 and $7,244 for the nine months ended September 30, 2003 and 2002, respectively)	28,564
Gains (losses) on investments	1,861
	453,567
BENEFITS AND EXPENSES	
Benefits, claims, and settlement expenses	269,114
Underwriting, acquisition, and insurance expenses (includes amounts paid to related parties of $3,434 and $2,946 for the three months ended September 30, 2003 and 2002, respectively and $9,086 and $17,319 for the nine months ended September 30, 2003 and 2002, respectively)	142,686
Variable stock-based compensation expense (benefit)	(1,211)
Other expenses (includes amounts paid to related parties of $380 and $726 for the three months ended September 30, 2003 and 2002, respectively, and $783 and $2,493 for the nine months ended September 30, 2003 and 2002, respectively)	16,539
Depreciation (includes expense on assets purchased from related parties of $557 and $438 for the three months ended September 30, 2003 and 2002, respectively, and $1,742 and $1,260 for the nine months ended September 30, 2003 and 2002, respectively)	3,606
Interest expense	332
Interest expense--student loan credit facilities	433
Losses in Healthaxis, Inc. investment	1,266
	432,765
INCOME FROM CONTINUING OPERATIONS BEFORE FEDERAL INCOME TAXES	20,802

Federal income taxes	6,996	--
INCOME FROM CONTINUING OPERATIONS	13,806	
DISCONTINUED OPERATIONS		
Income (loss) from operations (net of income tax benefit of $10,660 and $4,900 for the three months ended September 30, 2003 and 2002, respectively, and $13,547 and $3,100 for the nine months ended September 30, 2003 and 2002, respectively)	(67,101)	--
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	(53,295)	
Cumulative effect of accounting change (net of income tax benefit of $1,742 for the nine months ended September 30, 2002)	--	--
NET INCOME (LOSS)	$ (53,295)	$
Earnings (loss) per share:		
Basic earnings		
Income from continuing operations	$ 0.30	$
Income (loss) from discontinued operations	(1.45)	--
Income (loss) before cumulative effect of accounting change	(1.15)	
Cumulative effect of accounting change	--	--
Net income (loss)	$ (1.15)	$
Diluted earnings		
Income from continuing operations	$ 0.29	$
Income (loss) from discontinued operations	(1.40)	--
Income (loss) before cumulative effect of accounting change	(1.11)	
Cumulative effect of accounting change	--	--
Net income (loss)	$ (1.11)	$

See Notes to Consolidated Condensed Financial Statements.

UICI AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED) (DOLLARS IN THOUSANDS)

	THREE MONTHS ENDED SEPTEMBER 30,		
	2003	2002	20
Net income (loss)	$(53,295)	$ 16,222	$(25
Other comprehensive income (loss):			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during period	(5,789)	9,699	28
Reclassification adjustment for losses included in			

net income (loss)	(5,494)	(2,121)	(6
Other comprehensive income (loss) before tax	(11,283)	7,578	22
Income tax provision related to items of other comprehensive income (loss)	3,982	(2,652)	(7
Other comprehensive income (loss) net of tax provision	(7,301)	4,926	14
Comprehensive income (loss)	$(60,596)	$ 21,148	$(10

See Notes to Consolidated Condensed Financial Statements.

5

UICI AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
(DOLLARS IN THOUSANDS)

	NIN
	2003
OPERATING ACTIVITIES	
Net income (loss)	$ (25,4
Adjustments to reconcile net income to cash provided by operating activities:	
Increase in policy liabilities	86,7
Increase in other liabilities and accrued expenses	13,7
Decrease (increase) in income taxes	(4,3
Decrease (increase) in deferred acquisition costs	4,1
Increase in accrued investment income	(1,6
Decrease (increase) in reinsurance and other receivables	(20,5
Stock appreciation expense (benefit)	(1,6
Depreciation and amortization	23,5
Losses in Healthaxis, Inc investment	2,2
(Gains) losses on sale of investments	(1,6
Decrease in AMS net assets held for sale	116,2
Amounts charged to loss on disposal of discontinued operations	(5,4
Other items, net	(1,8
Cash Provided by Operating Activities	184,1
INVESTING ACTIVITIES	
Increase in student loans	(5,8
Increase in other investments	(49,8
Decrease (increase) in restricted cash	8,5
Increase in AMS net assets held for sale	(133,1
Decrease (increase) in agents' receivables	15,7
Proceeds from sale of subsidiary net of cash disposal of $701 in 2002	
Purchase of subsidiaries net of cash acquired of $2,649 in 2002	
Increase in property and equipment	(28,4
Cash Used in Investing Activities	(193,0

FINANCING ACTIVITIES	
Deposits from investment products	9,8
Withdrawals from investment products	(18,3
Proceeds from CFLD student loan facility	
Repayment of debt	(3,9
Issue shares to Employee Stock Plan	
Exercise of stock options	9,4
Purchase of treasury shares	(16,0
Exercise of Onward and Upward option	
Repayment of notes receivable from stock sale	1,5
Decrease in AMS net assets held for sale	42,1
Other items, net	9
Cash Provided by Financing Activities	25,5
Net increase in Cash	16,6
Cash and cash equivalents at Beginning of Period	16,2
Cash and cash equivalents at End of Period	$ 32,8

See Notes to Consolidated Condensed Financial Statements.

UICI AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2003

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements for UICI and its subsidiaries (the "Company" or "UICI") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, such financial statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments, except as otherwise described herein, consist of normal recurring accruals. Operating results for the nine-month period ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002. Certain amounts in the 2002 financial statements have been reclassified to conform to the 2003 financial statement presentation.

CHANGE IN RESERVING METHODOLOGY - SELF EMPLOYED AGENCY DIVISION

Effective January 1, 2003, the Company's Self Employed Agency ("SEA") Division made adjustments to its reserve methodology and certain changes in accounting estimates, the net effect of which decreased reserves and correspondingly increased operating income reported by the SEA Division in the amount of $4.8 million in the first quarter of 2003. Set forth below is a summary of the adjustments and changes in accounting estimates made by the Company.

Claim Reserve Changes

The SEA Division utilizes the developmental method to estimate claim reserves. Under the developmental method, completion factors are applied to paid claims in order to estimate the ultimate claim payments. These completion factors are derived from historical experience and are dependent on the "incurred dates" of the paid claims. Prior to January 1, 2003, the Company utilized the "original incurred date" coding method to establish the date a policy claim is incurred under the developmental method. Under the original incurred date coding method, prior to the end of the period in which a health policy claim was made, the Company estimated and recorded a liability for the cost of all medical services related to the accident or sickness relating to the claim, even though the medical services associated with such accident or sickness might not be rendered to the insured until a later financial reporting period.

Effective January 1, 2003, the Company has determined to utilize a "modified incurred date" coding method to establish incurred dates under the developmental method. Under this modified incurred date coding method, a break in service of more than six months will result in the establishment of a new "incurred date" for subsequent services. In addition, under the modified incurred date coding method, prior to the end of the period in which a health policy claim is made, the Company estimates and records a liability for the cost of medical services to be rendered to the insured for at most the succeeding three years following the date the policy claim is initially made. If in fact a particular claim extends past the three year period following the date the policy claim is initially made, an incurred date more recent than the original incurred date is utilized in future reserve calculations. The Company believes that this modified incurred date coding method will provide for a more direct and accurate reflection of actual experience in the pricing of the Company's insurance products. This change in methodology resulted in a reduction in the claim reserves of $12.3 million during the first quarter of 2003.

Changes in Estimate

Several changes in accounting estimates resulted in a further reduction of the claim reserve in the amount of $5.4 million during the first quarter of 2003. This reduction in the claim reserve was attributable primarily to the effects of a change in estimate of the reserve for excess pending claims. This change was necessary to maintain consistency with the historical data underlying the calculation of the new completion factors used in the claim development reserve. These completion factors are based on more recent experience with claims payments than the previous factors. This more recent experience has a greater number of pending claims. As a result, the new completion

factors have built in a higher level of reserves for pending claims. The release of a portion of the excess pending claims reserve reflects the additional pending claims included in the completion factors.

ROP Reserve Changes

The Company has issued certain health policies with a "return-of-premium" (ROP) rider, pursuant to which the Company undertakes to return to the policyholder on or after age 65 all premiums paid less claims reimbursed under the policy. The ROP rider also provides that the policyholder may receive a portion of the benefit prior to age 65. Historically, the Company has established a reserve for future ROP benefits, which reserve has been calculated by applying factors (based on 2 year preliminary term, a 5% interest assumption, 1958 CSO mortality termination assumption, and level future gross premiums) to the current premium on a contract-by-contract basis. A claims offset was applied, on a contract-by-contract basis, solely with respect to an older closed block of policies. The ROP reserve is reflected in future policy and contract benefits on the Company's consolidated balance sheet.

The Company records an ROP reserve to fund longer-term obligations associated with the ROP rider. This reserve is impacted both by the techniques utilized to calculate the reserve and the many assumptions underlying the calculation, including interest rates, policy lapse rates, premium rate increases on policies and assumptions with regard to claims paid. The Company has previously utilized a simplified reserving methodology that it believed generated an appropriate ROP reserve in the aggregate. However, the Company recently reviewed its ROP reserving methodology in order to determine if refinements to the methodology were appropriate. As a result of such review, effective January 1, 2003, the ROP reserving methodology was refined to utilize new factors (based on a net level premium basis, 4.5% interest, 1958 CSO mortality, and, where appropriate, 10% annual increases in future gross premiums) and to apply these factors to the historical premium payments on a contract-by-contract basis. The claim offset is now applied on all material blocks of policies with ROP riders. As a result of these changes, the ROP reserve for the Company increased by $12.9 million during the first quarter of 2003.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In April 2003, the FASB issued Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. Statement 149 is effective for contracts entered into or modified after June 30, 2003. This statement amends and clarifies financial accounting and reporting for derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133. Effective June 30, 2003, the Company adopted this pronouncement. Adoption of this pronouncement did not have a material effect upon the financial condition or results of operations of the Company.

In May 2003, the FASB issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. Statement 150 is effective for financial instruments entered into or modified after May 31, 2003. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. Effective July 1, 2003, the Company adopted this pronouncement. Adoption of this pronouncement did not have a material effect upon the financial condition or results of operations of the Company.

In June 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities. Statement 146 is effective for exit or disposal activities initiated after December 31, 2002. Effective January 1, 2003, the Company adopted this pronouncement. Adoption of this pronouncement did not have a material effect upon the financial condition or results of operations of the Company.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. The interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year end. The disclosure requirements in this Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. Effective January 1, 2003, the Company adopted this pronouncement. Adoption of this pronouncement did not have a material effect upon the financial condition or results of operations of the Company.

8

In December 2002, the FASB issued Statement No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure. Statement 148 amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, Statement 148 amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The amendments to Statement 123 are effective for financial statements for fiscal years ending after December 15, 2002. Earlier application of the transition provisions is permitted for entities with a fiscal year ending prior to December 15, 2002. The Company has historically accounted for the stock-based compensation plans under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. On January 1, 2003, the Company adopted Statement No. 123 for all employee awards granted or modified on or after January 1, 2003, and began measuring the compensation cost of stock-based awards under the fair value method. The Company adopted the transition provisions that require expensing options prospectively in the year of adoption. Existing awards will continue to follow the intrinsic value method prescribed by APB 25. Assuming award levels and fair values similar to past years, the impact of adoption is not material on results of operations. This change will primarily impact the accounting for stock options.

The following table illustrates the effect on net income (loss) as if the fair-value-based method had been applied to all outstanding and unvested awards in each period.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTH SEPTEMB
	2003	2002	2003
	(IN THOUSANDS, EXCEPT PER SHARE AMO		
Net income (loss), as reported.....................	$ (53,295)	$ 16,222	$ (25,407)
Add stock-based employee compensation expense included in reported net income, net of tax.......	42	55	126
Deduct total stock-based employee compensation expense determined under fair-value-based method for all rewards, net of tax.....................	(94)	(392)	(415)
Pro forma net income (loss)	$ (53,347)	$ 15,885	$ (25,696)
Earnings (loss) per share:			
Basic-as reported................................	$ (1.15)	$ 0.34	$ (0.55)
Basic-pro forma..................................	$ (1.15)	$ 0.33	$ (0.55)

Diluted-as reported.............................	$ (1.11)	$ 0.33	$ (0.53)
Diluted-pro forma...............................	$ (1.11)	$ 0.32	$ (0.53)

NOTE B - DISCONTINUED OPERATIONS

For financial reporting purposes, the Company has classified as discontinued operations its former sub-prime credit card unit, its Special Risk Division, its Senior Market Division and its Academic Management Services Corp. ("AMS") subsidiary. The Company's results in the three and nine months ended September 30, 2003 included losses from discontinued operations in the amount of $(67.1) million and $(72.7) million, net of tax, respectively. For the three and nine months ended September 30, 2002, the Company's results from discontinued operations reflected income in the amount of $422,000 and $2.0 million (net of tax), respectively.

As previously reported, on October 29, 2003, UICI executed a definitive agreement with SLM Corporation ("Sallie Mae"), pursuant to which UICI will sell its entire equity interest in AMS. (See Note C - Academic Management Services Corp.).

In May 2003, the Company determined to exit the businesses of its Senior Market Division by sale or wind-down, and as a result the Company designated and has classified its Senior Market Division as a discontinued operation for financial reporting purposes. The Company's Senior Market Division formerly specialized in the development of long-term care and Medicare Supplement insurance products for the senior market.

For the three and nine months ended September 30, 2003, the Senior Market Division reported losses (net of tax) in the amount of $(161,000) and $(9.1) million, respectively, compared to losses of $(1.4) million and $(3.5) million in the three and nine months ended September 30, 2002, respectively. A significant portion of such losses in the

three and nine months ended September 30, 2003 was attributable to a loss in the amount of $(5.5) million (net of tax) recognized upon sale, effective June 30, 2003, of the Company's interest in the agency through which the Company formerly marketed and distributed insurance products to the senior market.

NOTE C - ACADEMIC MANAGEMENT SERVICES CORP.

On October 29, 2003, UICI executed a definitive agreement with SLM Corporation ("Sallie Mae"), pursuant to which UICI will sell its entire equity interest in Academic Management Services Corp. ("AMS"). The Company has estimated that the sale of AMS to Sallie Mae, when completed, will generate net cash proceeds to UICI of approximately $25.3 million. At closing, UICI will also receive uninsured student loan assets currently held by AMS' special purpose financing subsidiaries with a face amount of approximately $44.7 million (including accrued interest). The fair value of the uninsured loans is expected to be significantly less than the face amount of the loans.

Closing of the transaction is anticipated to occur in November 2003 and is subject to satisfaction of several closing conditions, including expiration or earlier termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. While the Company believes that it will be able to satisfy all conditions to closing, there can be no assurance that the conditions to closing will be satisfied or that the transaction contemplated by the definitive agreement will in fact be completed.

The Company has classified AMS as a discontinued operation for financial reporting purposes as of September 30, 2003. Reflecting the fair market value of AMS implied by the proposed transaction with Sallie Mae, UICI recorded in the three and nine months ended September 30, 2003 a pre-tax loss (consisting of an estimated loss upon disposal of AMS and AMS' operating results in the periods) in the amount of $(77.5) million ($(66.9) million net of tax) and $(75.3) million ($(65.6) million net of tax), respectively. Exclusive of the estimated loss upon disposal of AMS in the amount of $(61.2) million (net of tax), in the three and nine months ended September 30, 2003 AMS reported operating losses (net of tax) in the amount of $(5.7) million and $(4.4) million, respectively, compared to operating income (net of tax) of $1.8 million and $5.4 million in the corresponding periods of the prior year.

AMS historically financed its student loan origination activities through seven special purpose subsidiaries ("Special Purpose Subsidiaries") (EFG-II LP, EFG-III LP, EFG Funding LLC, EFG-IV LP, AMS-I 2002 LP, AMS-II 2002 LP and AMS-III 2003 LP), through which it has outstanding six secured student loan financing facilities that issue debt securities secured by student loans and other qualified collateral. At December 31, 2002 and September 30, 2003, AMS had indebtedness outstanding under such facilities in the aggregate amount of $1,644.9 million and $1,602.6 million, respectively. All such indebtedness issued by the AMS Special Purpose Subsidiaries is included in "AMS liabilities held for sale" on the Company's consolidated balance sheet; and all student loans pledged to secure such indebtedness and all such cash, cash equivalents and qualified investments specifically pledged under the student loan credit facilities are included in "AMS assets held for sale" on the Company's consolidated balance sheet.

One of AMS' Special Purpose Subsidiaries (EFG-II LP) was liquidated in September 2003 when substantially all of the loans owned by the Special Purpose Subsidiary were sold (approximately $105.5 million of principal and accrued interest) and the associated debt was repaid. The Company recorded a net gain of $2.0 million from the liquidation of this facility.

On July 21, 2003, UICI reported the discovery of a shortfall in the type and amount of collateral supporting two of the securitized student loan financing facilities entered into by three Special Purpose Subsidiaries of AMS. The problems at one of the financing facilities (the EFG-III LP commercial paper conduit facility) are of three types: insufficient collateral, a higher percentage of alternative loans (i.e., loans that are privately guaranteed as opposed to loans that are guaranteed by the federal government) included in the existing collateral than permitted by the loan eligibility provisions of the financing documents and failure to provide timely and accurate reporting to each of the various financial institutions that are parties to the financings, including the indenture trustee, the commercial paper liquidity providers and the financial guaranty insurer. The problems related to the second financing subsidiary (AMS-1 2002, LP) consist primarily of a higher percentage of alternative loans included in the existing collateral than permitted by the loan eligibility provisions of the financing documents and the failure to provide timely and accurate reporting to interested parties. In addition, AMS and the other four special financing subsidiaries of AMS have failed to comply with their respective reporting obligations owed to the indenture trustee under the financing documents.

On July 24, 2003, AMS obtained waivers and releases from interested third parties, as described more fully below, with respect to four of the six securitized student loan financing facilities. The waiver and release agreements were entered into with Bank of America and Fleet Bank (the providers of a liquidity facility that supports the EFG-III, LP commercial paper facility), Bank One (the trustee under the indentures that govern the terms of the debt securities issued by each of AMS' Special Purpose Subsidiaries) and MBIA Insurance Corporation (the financial guaranty insurer of debt securities issued by four of the six AMS student loan financing facilities).

The waiver and release agreement for the EFG-III, LP commercial paper securitized student loan facility required UICI's contribution to the capital of AMS of $48.25 million ($1.75 million on July 24, 2003, $36.5 million on July 31, 2003 and $10.0 million on August 15, 2003) in cash, all of which, as of July 31, 2003, UICI had contributed to AMS.

The financial institutions agreed to waive all existing defaults under the relevant financing documents with respect to EFG-III, LP and EFG Funding LLC (both of which are exclusively involved in the commercial paper program) until January 1, 2004, which date will be automatically extended for successive 90-day periods through September 30, 2004 if the outstanding amount of commercial paper is reduced to agreed-upon levels from its current outstanding amount (approximately $440.0 million). AMS agreed to partially address the under-collateralization problem by transferring to EFG-III, LP approximately $189 million of federally-guaranteed student loan and other assets that meet loan eligibility requirements under the financing documents and by transferring approximately $34.4 million of uninsured student loans that do not meet loan eligibility requirements under the financing documents. In addition, AMS agreed to contribute to EFG-III LP $46.5 million of the $48.25 million in cash contributed to AMS by UICI, either in the form of cash or federally guaranteed student loans. These various transfers by AMS eliminated the shortfall in collateral amount with respect to the EFG-III LP commercial paper conduit facility.

With respect to the AMS-1 2002, LP facility, as of July 24, 2003, the interested parties agreed to waive, for a period of 90 days, all defaults, amortization events and events of default based solely on defaults arising prior to July 24, 2003 resulting from non-federally insured student loans included in the collateral in excess of the maximum percentage limit for such loans as set forth in the documents governing the financing, which waiver is not extendable. In addition, with respect to four other student loan financing facilities, the interested parties agreed to waive, as of July 24, 2003, all immaterial previously-existing defaults resulting from inaccurate or untimely reporting to interested parties or any other reporting deficiency by the applicable issuer under each such facility, AMS or any other affiliate of AMS, for a period of 90 days, which period is not extendable.

Effective October 17, 2003, the interested parties agreed to extend the initial 90-day waiver period under the AMS-1 2002, LP waiver to February 6, 2004, unless (a) UICI failed to execute a purchase agreement with Sallie Mae on or before October 31, 2003 (in which case the waiver shall expire ten days thereafter) or (b) UICI fails to close a transaction with Sallie Mae on or before December 1, 2003 (in which case the waiver shall expire ten days thereafter). Effective October 17, 2003, the interested parties agreed to extend the initial 90-day waiver period under the EFG-IV, LP waiver to March 31, 2004, unless (a) UICI fails to execute a purchase agreement with Sallie Mae on or before October 31, 2003 (in which case the waiver shall expire ten days thereafter) or (b) UICI fails to close a transaction with Sallie Mae on or before December 1, 2003 (in which case the waiver shall expire ten days thereafter). As discussed above, on October 29, 2003, UICI executed a definitive agreement with Sallie Mae to sell AMS, and pursuant to the agreement Sallie Mae has agreed to assume responsibility for liquidating and terminating all of the remaining special purpose financing facilities through which AMS previously securitized student loans.

UICI believes that it has no obligations with respect to the indebtedness of AMS' Special Purpose Subsidiaries or with respect to the obligations of AMS relating to such financings. Nonetheless, in exchange for UICI's capital contribution to AMS as described above, the financial institutions named above have agreed to release UICI from any and all existing claims or suits (other than claims for fraud at the UICI level) that could arise relating to the AMS student loan financing facilities.

11

On August 7, 2003, AMS entered into a master repurchase facility with a financial institution, the obligations under which are partially (to the extent of $13.3 million) guaranteed by the Company. The proceeds of the facility are used by AMS from time to time to initially fund AMS' student loan originations. The repurchase facility provides for the purchase of student loans by the financial institution at 96% of par, and the financial institution may put the student loans back to AMS on the last day of each month. AMS, in turn, has the right to require the financial institution to repurchase the student loans on such date, with the interest rate on the repurchase facility reset on such date. The lender under the facility is committed to provide up to $275.0 million of financing. Amounts outstanding under the facility will bear interest at a variable annual rate of LIBOR plus 75 basis points and are secured by student loans made under the Federal Family Education Loan Program. The master repurchase facility terminates on November 20, 2003 and is subject to monthly extensions upon the mutual agreement of the financial institution and AMS.

The Audit Committee of UICI's Board of Directors, with the assistance of independent counsel, conducted an investigation into the matters and events leading to the announcement of the collateral shortfalls at AMS' student loan financing facilities. Based on that investigation, the Company believes that UICI's previously published consolidated financial statements have been fairly presented.

Set forth below is a summary of the operating results of AMS for the nine months ended September 30, 2003 and 2002:

	NINE MONTHS ENDED SEPTEMBER 30, (UNAUDITED) (IN THOUSANDS)	
	2003	2002
Revenues:		
Student loan spread income:		
Interest income -- student loans	$ 41,122	$ 51,454
Interest expense -- student loans	(27,304)	(29,701)
Net student loan spread income	13,818	21,753
Gain on sale of student loans	3,868	3,866
Tuition payment program revenue:		
Fee income	9,328	9,975
Investment income on trust balances	1,577	2,899
Total tuition payment program revenue	10,905	12,874
Fee income -- loan servicing and other	8,914	9,595

Net revenues:	37,505	48,088
Operating expenses:		
Interest expense -- other indebtedness	40	60
Other operating expenses	44,272	42,829
Total operating expenses	44,312	42,889
Income (loss) from operations	(6,807)	5,199
Estimated loss from disposal	(68,518)	--
Total pre-tax income (loss)	$ (75,325)	$ 5,199

Set forth below is a summary of the financial condition of AMS as of September 30, 2003 and December 31, 2002:

	SEPTEMBER 30, 2003	DECEMBER 31, 2002
	(UNAUDITED)	
	(IN THOUSANDS)	
Assets:		
Student loans	$ 1,406,175	$ 1,335,540
Cash	5,712	38,660
Restricted cash	427,834	332,407
Investment income due and accrued	40,664	38,371
Other assets	29,860	97,795
Total assets	1,910,245	1,842,773
Liabilities:		
Collections payable	205,979	155,908
Other liabilities	21,940	28,559
Student loan credit facilities	1,644,899	1,602,602
Total liabilities	1,872,818	1,787,069
Net assets held for sale	$ 37,427	$ 55,704

In April 2003, AMS completed the sale to institutional investors of $366.7 million principal amount of student loan asset-backed notes issued by a Special Purpose Subsidiary of AMS, consisting of a series of senior notes in the aggregate principal amount of $330.0 million and a series of subordinated notes in the aggregate principal amount of $36.7 million. The notes are secured by a pledge of federally guaranteed student loans and alternative (i.e., non-federally guaranteed) student loans. As of August 18, 2003, the senior notes were rated AAA by Standard & Poor's and Fitch, Inc. and Aaa by Moody's Investor Service, and the subordinated notes were rated A by Standard & Poor's, A2 by Moody's Investor Service and A+ by Fitch, Inc. The final scheduled payment date of the senior and subordinated notes is May 2042. The notes are prepayable by the Special Purpose Subsidiary at any time and from time to time at 100% of the principal amount thereof. Interest on the senior notes is payable and reset every 28 days at a rate equal to the 90-day LIBOR plus 1.25%, and interest on the subordinated notes is payable and reset every 28 days at a rate equal to the 90-day LIBOR plus 2.25%.

AMS has a note payable in the outstanding principal amount of $1.5 million and $1.6 million at September 30, 2003 and December 31, 2002, respectively. The note bore interest at approximately 2.8% at September 30, 2003, matures on June 30, 2004, requires principal and interest payments quarterly and is secured by a first mortgage on real estate held by AMS. The note is classified on the Company's balance sheet under the caption "AMS liabilities held for sale."

NOTE D - INVESTMENT IN HEALTHAXIS, INC.

At July 1, 2003, the Company held 26,382,702 shares of common stock of Healthaxis, Inc. (HAXS: Nasdaq) ("HAI"), which at such date represented approximately 49.25% of the issued and outstanding shares of HAI. Effective September 30, 2003, the Company sold to Healthaxis, Inc. (HAXS: Nasdaq) ("HAI") its then entire 48.27% equity interest in HAI for a total sale price of $3.9 million, of which $500,000 was paid in cash at closing, and the balance was paid by delivery of a promissory note payable to the Company in the amount of $3.4 million. The Company recognized a nominal loss for financial reporting purposes in connection with the sale.

NOTE E - GOODWILL AND OTHER INTANGIBLE ASSETS

The Company adopted FASB Statements No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets on January 1, 2002. In accordance with Statement No. 142, the Company tested for goodwill impairment as of January 1, 2002. As a result of the transitional impairment testing, completed during the quarter ended September 30, 2002, the Company determined that goodwill recorded in connection with the acquisitions of AMS and Barron Risk Management Services ("Barron") was impaired in the aggregate amount of $6.9 million ($5.1 million net of tax). AMS is classified as a discontinued operation for financial reporting purposes at the end of the third quarter of 2003. The Company has reflected this impairment charge in its financial statements as a cumulative effect of a change in accounting principle as of January 1, 2002 in accordance with Statement No. 142.

Effective February 28, 2002, UICI acquired STAR HRG for an initial cash purchase price of $25.0 million, plus additional contingent consideration based on the future annualized premium of STAR HRG measured over the three-month period ended May 31, 2003. In June 2003, the Company recorded on its consolidated balance sheet the additional consideration plus interest from date of acquisition through May 31, 2003 ($16.1 million) as goodwill and established a corresponding liability reflecting the obligation to pay the additional consideration (see Note G).

Set forth in the table below is a summary of the goodwill and other intangible assets by operating segment as of September 30, 2003 and December 31, 2002:

	SEPTEMBER 30, 2003 (IN THOUSANDS)		
	GOODWILL	OTHER INTANGIBLE ASSETS	ACCUMULATED AMORTIZATION
Self Employed Agency Division............	$ 9,405	$ --	$ (3,972)

Group Insurance Division	33,640	8,858	(2,525)
Life Insurance Division	552	--	(193)
	$ 43,597	$ 8,858	$ (6,690)

13

	DECEMBER 31, 2002 (IN THOUSANDS)		
	GOODWILL	OTHER INTANGIBLE ASSETS	ACCUMULATED AMORTIZATION
Self Employed Agency Division	$ 9,405	$ --	$ (3,972)
Group Insurance Division	17,513	8,858	(1,428)
Life Insurance Division	552	--	(193)
	$ 27,470	$ 8,858	$ (5,593)

Other intangible assets consist of customer lists, trademark and non-compete agreements related to the acquisition of Star Human Resources Group, Inc. and STAR Administrative Services, Inc. (collectively referred by the Company as its "STAR HRG" unit) completed in the three months ended March 31, 2002. (See Note G).

Set forth in the table below is a summary of the estimated amortization expense for the next five years and thereafter for other intangible assets:

	(IN THOUSANDS)
Remainder of 2003	$ 365
2004	1,270
2005	1,082
2006	948
2007	722
2008 and thereafter	1,946
	$ 6,333

NOTE F - DEBT

HOLDING COMPANY DEBT

At September 30, 2003 and December 31, 2002, the Company had outstanding consolidated short and long-term indebtedness (exclusive of indebtedness secured by student loans) in the amount of $4.0 million and $7.9 million, respectively, all of which constituted indebtedness of the holding company.

On January 25, 2002, the Company entered into a three-year bank credit facility with Bank of America, NA and LaSalle Bank National Association. Under the facility, the Company may borrow from time to time up to $30.0 million on a revolving, unsecured basis. The Company intends to utilize the proceeds of the facility for general working capital purposes. At September 30, 2003, the Company had no borrowings outstanding under the facility.

On June 22, 1994, the Company authorized an issue of its 8.75% Senior Notes due June 2004 in the aggregate amount of $27.7 million. In accordance with the agreement governing the terms of the notes (the "Note Agreement"), commencing on June 1, 1998 and on each June 1 thereafter to and including June 1, 2003, the Company was required to pay approximately $4.0 million aggregate principal together with accrued interest thereon to the date of such repayment. The principal amount of the notes outstanding was $4.0 million and $7.9 million at September 30, 2003 and December 31, 2002, respectively. The Company incurred $403,000 and $663,000 of interest expense on the notes in the nine months ended September 30, 2003 and 2002, respectively. The Note Agreement contains restrictive covenants that include certain financial ratios, limitations on additional indebtedness as a percentage of certain defined equity amounts and the disposal of certain subsidiaries, including primarily the Company's regulated insurance subsidiaries.

In full payment of all contingent consideration payable in connection with UICI's February 2002 acquisition of STAR HRG, on November 10, 2003 UICI delivered to the sellers UICI's 6% convertible subordinated notes in the aggregate principal amount of $15.0 million, together with cash interest in the aggregate amount of approximately $1.5 million. The subordinated notes are convertible into UICI Common Stock at a conversion price of $20.06 per common share. See Note G of Notes to Condensed Consolidated Financial Statements.

STUDENT LOAN DEBT

At each of September 30, 2003 and December 31, 2002, the Company, through its former College Fund Life Division, had outstanding an aggregate of $150.0 million of indebtedness issued by a special purpose entity ("Special Purpose Subsidiary") under a secured student loan credit facility. The accounts of the Company's Special Purpose Subsidiary are included in the Company's Consolidated Financial Statements. At September 30, 2003 and

December 31, 2002, the indebtedness issued by the Special Purpose Entity was secured by privately guaranteed and alternative (i.e., non-federally guaranteed) student loans and by a pledge of cash, cash equivalents and other qualified investments. All such indebtedness issued by the Special Purpose Subsidiary is reflected as student loan indebtedness on the Company's consolidated balance sheet; all such student loans pledged to secure such indebtedness are reflected as student loan assets on the Company's consolidated balance sheet; and all such cash, cash equivalents and qualified investments specifically pledged under the student loan credit facility are reflected as restricted cash on the Company's consolidated balance sheet.

The notes represent obligations solely of the Special Purpose Entity and not of the Company or any other subsidiary of the Company. For financial reporting and accounting purposes, the College Fund Life Division structured finance facility has been classified as a financing. Accordingly, in connection with the financing the Company recorded no gain on sale of the assets transferred to the Special Purpose Entity and, on a consolidated basis, the Company continues to carry on its consolidated balance sheet the alternative student loans ($99.6 million and $95.2 million principal amount at September 30, 2003 and December 31, 2002, respectively) and cash and cash equivalents held by the Special Purpose Entity ($44.9 million and $48.2 million at September 30, 2003 and December 31, 2002, respectively, classified as restricted cash) and the associated indebtedness ($150.0 million and $150.0 million at September 30, 2003 and December 31, 2002, respectively, which is included on the Company's consolidated balance sheet as student loan credit facility) arising from the transaction.

During the three months ended September 30, 2003 and 2002, the Company incurred total interest on borrowings associated with the College Fund Life Division securitization in the amount of $433,000 and $756,000, respectively.

At December 31, 2002 and September 30, 2003, AMS had indebtedness outstanding under six secured student loan financing facilities that issue debt securities secured by student loans and other qualified collateral in the aggregate outstanding amount of $1,644.9 million and $1,602.6 million, respectively. All such indebtedness is included in "AMS liabilities held for sale" on the Company's consolidated balance sheet. See Note C of Notes to Condensed Consolidated Financial Statements for additional information concerning AMS securitized student loan facilities.

NOTE G - ACQUISITIONS AND DISPOSALS

In February 2002 UICI acquired STAR HRG for an initial cash purchase price of $25.0 million, plus additional contingent consideration based on the amount of annualized premium of STAR HRG measured over the three-month period ended May 31, 2003. The contingent consideration was established as an amount not to exceed $15.0 million and is payable, at the Company's option, in cash or by delivery of UICI's 6.0% convertible subordinated notes due March 1, 2012 plus, in each case, interest payable in cash computed at a rate of 6% from the initial closing. UICI and the sellers of STAR determined that the full contingent consideration of $15.0 million was payable during the three months ended June 30, 2003. In full settlement of the contingent portion of the purchase price, on November 10, 2003, the Company issued to the sellers UICI's 6% convertible subordinated notes in the aggregate principal amount of $15.0 million, together with cash interest in the aggregate amount of approximately $1.5 million. The subordinated notes are convertible into UICI Common Stock at a conversion price of $20.06 per common share.

In connection with the acquisition, in the first quarter of 2002 the Company recorded non-amortizable goodwill in the amount of $17.5 million and amortizable intangible assets in the amount of $8.9 million. During the three months ended June 30, 2003, the Company recorded on its consolidated balance sheet the additional consideration plus interest from date of acquisition through May 31, 2003 ($16.1 million) as goodwill and established a corresponding liability reflecting the obligation to pay the additional contingent consideration. In the period commencing June 1, 2003 through September 30, 2003, the Company recorded $300,000 of interest expense related to this contingent consideration.

NOTE H - INCOME TAXES

The Company's effective tax rate on continuing operations for the three and nine month periods ended September 30, 2003 was 33.6% and 34.5%, respectively, compared to 33.3% and 31.8% respectively, in the corresponding 2002 periods. Comparable low-income housing tax credits for 2003 and 2002, when expressed as a percentage of each year's anticipated taxes, resulted in a lower effective tax rate for the nine-months ended September 30, 2002 compared to the corresponding 2003 period.

The tax benefit on the losses from discontinued operations for the 2003 periods varied from the expected benefit (at the statutory rate of 35%) primarily as a result of the non-deductible portion of the AMS impairment charge. For the 2002 periods, the tax benefit is primarily attributable to the release of a valuation allowance associated with the net operating loss carryforward of AMS.

NOTE I - EARNINGS (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted earnings (loss) per share:

	THREE MONTHS ENDED SEPTEMBER 30,		N
	2003	2002	20
	(IN THOUSANDS, EXCEPT PER SHARE		
Income (loss) available to common shareholders:			
Income from continuing operations available to common shareholders........................	$ 13,806	$ 15,800	$ 4
Income (loss) from discontinued operations...	(67,101)	422	(7
Income (loss) before cumulative effect of accounting change..........................	(53,295)	16,222	(2
Cumulative effect of accounting change.......	--	--	
Net income (loss)...........................	$ (53,295)	$ 16,222	$ (2
Weighted average shares outstanding -- basic earnings (loss) per share...................	46,396	47,874	4
Effect of dilutive securities:			
Employee stock options and other shares........	1,528	667	
Weighted average shares outstanding -- dilutive earnings (loss) per share...................	47,924	48,541	4
Basic earnings (loss) per share			
From continuing operations..................	$ 0.30	$ 0.33	$
From discontinued operations................	(1.45)	0.01	
Income (loss) before cumulative effect of accounting change........................	(1.15)	0.34	
Cumulative effect of accounting change.......	--	--	
Net income (loss)...........................	$ (1.15)	$ 0.34	$
Diluted earnings (loss) per share			
From continuing operations..................	$ 0.29	$ 0.32	$
From discontinued operations................	(1.40)	0.01	
Income (loss) before cumulative effect of accounting change..........................	(1.11)	0.33	
Cumulative effect of accounting change.......	--	--	
Net income (loss)...........................	$ (1.11)	$ 0.33	$

NOTE J - LEGAL PROCEEDINGS

The Company is a party to the following material legal proceedings:

ASSOCIATION GROUP LITIGATION

Introduction

The health insurance products issued by the Company's insurance subsidiaries in the self-employed market are primarily issued to members of various independent membership associations that jointly market the products with the insurance subsidiaries. The associations provide their membership with a number of endorsed benefits and products, including the opportunity to apply for health insurance underwritten by the Company's health insurance subsidiaries. The Company and/or its insurance company subsidiaries have recently been named a party to several lawsuits challenging the nature of the relationship between the Company's insurance companies and the associations that have endorsed the insurance companies' health insurance products.

Mississippi Individual Litigation

The MEGA Life and Health Insurance Company (a wholly owned subsidiary of the Company) ("MEGA") is currently a defendant in eight separate lawsuits in Mississippi (Tomlin et al. v. MEGA Life and Health Insurance Company, et al., filed on January 28, 2003 in the Circuit Court of Monroe County, Mississippi; Bailey et al. v. MEGA Life, et al., filed on February 13, 2003 in the Circuit Court of Chickasaw County, Mississippi; Pride, et al. v. MEGA Life, et al., filed on December 31, 2002 in the Circuit Court of Panola County, Mississippi; Bishop v. John

Doe, MEGA Life and Health Insurance Company, et al., filed on April 15, 2003 in the Circuit Court of Lafayette County, Mississippi; Clark, et al. v. MEGA Life and Health Insurance Company, et al., filed on April 16, 2003 in the Circuit Court of Tate County, Mississippi; Webster, et al. v. The MEGA Life and Health Insurance Company, et al., filed on June 18, 2003 in the Circuit Court of the First Judicial District of Chickasaw County, Mississippi; Mathis et al. v. MEGA Life and Health Insurance Company, et al. filed on October 2, 2003 in the Circuit Court of the First Judicial District of Hinds County, Mississippi; and McCommon, et al. v. MEGA Life and Health Insurance Company, et al., filed on May 23, 2003, in the Circuit Court for Hinds County, et al. Mississippi).

Each of the Mississippi cases contains certain allegations regarding the relationships between MEGA and the National Association for the Self-Employed (NASE), the membership association that has endorsed MEGA's health insurance products. Plaintiffs specifically allege, among other things, that MEGA pursued a scheme of deceptive sales practices designed to create the impression that the NASE is an independent entity; that in fact the NASE and MEGA are "under common ownership and control;" that the benefits of the NASE membership are negligible and membership is intended to permit MEGA to control the insurer/insured relationship; and that the arrangement was intended to allow MEGA to eliminate insureds with health problems from its block of business by raising premiums. Plaintiffs demand punitive and economic damages in an indeterminate amount, including excess premiums, association dues and charges, administrative fees, and accrued interest.

The Tomlin, Bailey, Pride, Bishop, Clark, Webster and McCommon cases have been removed to the United States District Court for the Northern District of Mississippi. The plaintiffs in the Tomlin, Bailey, Pride and Bishop cases have moved to remand the matters to state court. MEGA has moved to dismiss the Tomlin, Bailey, Bishop and Pride cases, but has not answered or otherwise responded in the Clark, Webster, Mathis or McCommon cases. No discovery has been undertaken in any of the cases.

Mississippi Class Action Litigation

UICI, MEGA and UICI Marketing, Inc. have been named in a purported nationwide class action suit filed on October 30, 2003 in federal court (Eugene A. Golebiowski, individually and on behalf of others similarly situated, v. MEGA, UICI, the National Association for the Self-Employed et al, pending in the United States District Court for the Northern District of Mississippi, Eastern Division). Plaintiffs have alleged, among other things, that the relationship between NASE and MEGA constitutes an improper marketing scheme devised by the defendants to sell insurance, and that the "scheme" involves the non-disclosure of relationships between the defendants, the undisclosed transfer of association membership dues and fees to MEGA, and the utilization of "teaser rates" that are artificially low and established at an amount below that which would be actuarially recommended. Plaintiff, individually and on behalf of similarly situated class members, has asserted several causes of action, including fraudulent concealment, breach of contract, common law liability for non-disclosure, breach of fiduciary and trust duties, civil conspiracy, unjust enrichment and violation of state deceptive and trade practice acts. Plaintiffs seek declaratory judgment, injunctive, and other equitable relief. UICI, MEGA and UICI Marketing have not been formally served or otherwise pled or responded in the case.

California Litigation

As previously disclosed, UICI and Mid-West National Life Insurance Company of Tennessee (a wholly owned subsidiary of the Company) ("Mid-West") have been named as defendants in a suit filed on April 2, 2003 (Correa v. UICI, et al.) in the Superior Court for the State of California, County of Los Angeles, in which plaintiff has alleged, among other things, that defendants have engaged in illegal marketing practices in connection with the sale of health insurance. The plaintiff has asserted several causes of action, including breach of contract, violation of California Business and Professions Code Section 17200, false advertising, and negligent and intentional misrepresentation. On July 3, 2003, the Correa case was removed to the United States District Court for the Central District of California. The Company has moved to dismiss plaintiff's second amended complaint or, in the alternative, to require the Plaintiff to state the particulars of the alleged fraud and to strike certain portions of the complaint as inconsistent with California law. A hearing on such motions is scheduled for November 24, 2003.

As previously disclosed, UICI, MEGA, and Mid-West were named as defendants in an action filed on April 22, 2003 (Lacy v. The MEGA Life and Health Insurance Company, et al.) in Superior Court of California, County of Alameda, Case No. RG03-092881. Plaintiff, purportedly on behalf of the "general public," has alleged that all of the defendants are under common control and operate as a unified business arrangement established for the purpose

of, among other things, generating profits through association dues and bypassing and circumventing more stringent state insurance regulations applicable to other California insurance companies. Plaintiff has further alleged that defendants have knowingly and intentionally failed to disclose the common ownership and control of the defendant group, the amount and character of association dues administrative fees and other costs of obtaining insurance from MEGA and Mid-West and that initial premium rates are below the amount actuarially calculated for the purpose of inducing purchases of MEGA and Mid-West policies. Plaintiffs assert that defendants' actions constitute a violation of California Business and Professions Code Section 17200, for which plaintiff is entitled to injunctive, disgorgement, and monetary relief in an unspecified amount.

The Lacy case was removed on June 18, 2003 to the United States District Court for the Northern District of California. The Company moved to dismiss the case on July 15, 2003. The plaintiffs filed a motion to remand the case to state court on August 15, 2003. The Court has taken both motions under advisement. The Company also recently filed a motion requesting transfer to the Central District of California for coordination with the Correa matter.

As previously disclosed, UICI and Mid-West were named in a lawsuit filed on May 28, 2003 (Startup et al. v. UICI, et al.) in the Superior Court for the State of California, County of Los Angeles, Case No. BC296476). Plaintiffs have alleged, among other things, that UICI and Mid-West breached their duty of good faith and fair dealing in failing to pay medical claims submitted under a Mid-West policy issued to plaintiffs. Plaintiffs also alleged that the relationship between Alliance and Mid-West constitutes an illegal marketing "scheme" and asserted several causes of action, including breach of contract, violation of California Business and Professions Code Section 17200, false advertising, and negligent and intentional misrepresentation. Plaintiffs seek injunctive relief and monetary damages in an unspecified amount. On October 28, 2003, the Court granted defendants' motion to compel arbitration and stayed the case pending arbitration.

UICI and Mid-West were named as defendants in a lawsuit filed on July 25, 2003 (Portune, et. al. v. UICI, et al.), in the Superior Court of the State of California, County of San Bernadino, Case No. RCV 074062. Plaintiffs have alleged, among other things, that UICI and Mid-West breached their duty of good faith and fair dealing in failing to pay medical claims submitted under a Mid-West policy issued to plaintiffs. Plaintiffs also alleged that the relationship between Alliance and Mid-West constitutes an illegal marketing "scheme" and asserted several causes of action, including breach of contract, violation of California Business and Professions Code Section 17200, false advertising, and negligent and intentional misrepresentation. Plaintiffs seek injunctive relief and monetary damages in an unspecified amount. On September 16, 2003, UICI and Mid-West removed the Portune case to the United States District Court, Central District of California, Eastern Division. On October 15, 2003, the matter was transferred to the Western Division of the Central District of California on the grounds that the case is related to the Correa matter. On October 15, 2003, the Plaintiffs also moved to remand the case to state court. On October 14, 2003, the Company moved to dismiss the Complaint, or in the alternative, to require the plaintiffs to state the particulars of the alleged fraud and strike certain portions of the Complaint as inconsistent with California law.

On September 26, 2003, UICI and MEGA were named as cross defendants in a lawsuit initially filed on July 30, 2003 (Retailers' Credit Association of Grass Valley, Inc. v. Henderson, et al. v. UICI, et al. pending in the Superior Court of the State of California for the County of Nevada, Case No. L69072). In the suit, cross-plaintiffs allege, among other things, that UICI and MEGA breached their duty of good faith and fair dealing in failing to pay medical claims submitted under a MEGA policy issued to plaintiffs and that UICI and MEGA failed to properly disclose the relationship between MEGA and the NASE. Cross plaintiffs have asserted several causes of action, including breach of implied covenant of good faith and fair dealing, fraud, violation of California Business and Professions Code Section 17200, and negligent and intentional misrepresentation. Cross-plaintiffs seek injunctive relief and monetary damages in an unspecified amount and allege that MEGA denied insurance claims in an amount exceeding $158,000.

UICI and MEGA were named as defendants in a lawsuit filed on October 29, 2003 (Dan Liebscher v. UICI, The MEGA Life and Health Insurance Company, National Association for the Self Employed, et al pending in the Superior Court of the State of California, County of Los Angeles, Case No. BC 305194). Plaintiffs have alleged, among other things, that the failure to disclose the relationship between MEGA and NASE served to fraudulently induce plaintiff into joining NASE in order to acquire a health insurance policy and that UICI and MEGA breached their duty of good faith and fair dealing in failing to pay medical claims submitted under a MEGA policy issued to plaintiffs. Plaintiffs have asserted several causes of action, including breach of contract, violation of California

Business and Professions Code Section 17200, false advertising, and negligent and intentional misrepresentation. Defendants have not responded or otherwise pled in the case.

Texas Litigation

As previously disclosed, UICI and MEGA have been named as defendants in a purported class action suit filed on April 22, 2003 (Garcia v. UICI, et al.) in the District Court of Starr County, Texas, 381st Judicial District, Case No. DC-03-135. Plaintiff, on behalf of himself and a purported class of similarly situated individuals, has asserted, among other things, that MEGA, NASE Group Trust and NASE are under common control and ownership and operate as a "unified business arrangement" which is used solely for the purpose of generating profits through association dues and avoiding state insurance regulations. Plaintiffs have alleged that defendants have used false and deceptive advertising and sales practices in connection with the sale of insurance in Texas in violation of the Texas Insurance Code, and plaintiffs further allege conversion and breach of contract, for which they have asked for a return of all association dues and administrative fees collected by the defendants. MEGA, UICI, and NASE responded to initial written discovery requests. Neither UICI nor MEGA has answered or otherwise responded in the case. The Garcia case was removed on July 18, 2003 to the United States District Court for the Southern District of Texas, McAllen Division. The Plaintiffs have moved to remand the case back to state court.

Oklahoma Litigation

As previously disclosed, UICI and MEGA were named as defendants in a lawsuit filed on May 2, 2003 (Grigsby, et al. v. The MEGA Life and Health Insurance Company, et al.) in the District Court of Oklahoma County, Oklahoma, Case No. CJ-2003-3759. Plaintiffs have alleged that the defendants defrauded them into purchasing a health insurance policy and an association membership and that MEGA acted in bad faith and in breach of its contractual obligations in processing their health claims. Plaintiffs further allege that the defendants knowingly misrepresented, among other things, their relationship with the NASE and that plaintiffs were purchasing "true group insurance." Plaintiffs seek actual and punitive damages. UICI and MEGA moved to dismiss the case on July 16, 2003.

In Re Association Group Insurance Litigation

On September 22, 2003, UICI, MEGA, and Mid-West petitioned the Judicial Panel on Multidistrict Litigation to transfer and consolidate the Garcia, Grigsby, Portune, Correa, Bishop, Lacy, Tomlin, Bailey, Pride, Clark, and Webster cases for purposes of discovery and other pre-trial matters (In re Association Group Insurance Litigation, MDL Docket No. 1578). UICI requested transfer to the United States District Court for the Northern District of Texas.

The Correa, Portune, Garcia, Lacy, Bailey, and Tomlin plaintiffs have opposed the motion to transfer and consolidate on the grounds that the underlying cases did not have common fact and legal issues and that transfer and consolidation would be inefficient and more costly. The Webster, Clark, Bishop, and Pride plaintiffs, the NASE, and the Alliance for Affordable Services joined in the motion to transfer and consolidate.

Idaho Litigation

The Company and Mid-West are currently named as defendants in five pending suits in Idaho state court (Skinner, et al. v. Mid-West, UICI, et al., and Hansen v. Mid-West, UICI, et al., each filed on August 22, 2002 in pending in the District Court for the County of Lemhi, Idaho; and Petersen, et al. v. Mid-West, et al., filed on August 2, 2002, Murphy, et al. v. Mid-West, et al., filed January 25, 2002, and Graybeal, et al. v. Mid-West, et al., filed December 20, 2002, each pending in the District Court for the County of Twin Falls, Idaho).

Plaintiffs in the Skinner and Hansen cases allege that the insurance products they purchased were more expensive and provided less coverage than represented by the agent who sold the policies and that they have not been paid on claims submitted pursuant to those policies. Plaintiffs in Skinner and Hansen claim damages, including punitive damages, and attorneys' fees. The Company moved for partial summary judgment with respect to plaintiffs' breach of contract and bad faith claims in both cases. Mid-West also filed motions to dismiss certain of the plaintiffs' claims in both cases. Those motions are pending before the Court. Mid-West answered the complaints on September 30, 2002. Discovery has commenced in each case, and both cases are currently scheduled for trial in August 2004.

Plaintiffs in Peterson, Murphy, and Graybeal allege, among other things, that the Mid-West policies they purchased were of a lesser quality than represented and that they have not been paid for certain claims submitted under the policies. Plaintiffs in Peterson purport to represent a class of similarly situated persons. Plaintiffs in each of the actions claim damages, including punitive damages, and attorneys' fees. The Idaho Supreme Court recently ruled that the Murphy plaintiffs were not required to arbitrate their disputes with Mid-West. Both the Petersen and Murphy cases are currently stayed. Mid-West has not answered the complaint in either Petersen or Murphy. Mid-West answered the complaint in Graybeal on March 24, 2003. Discovery has commenced in Graybeal, and trial is currently scheduled to begin in October 2004.

The Company believes that plaintiffs' claims in all of these cases are without merit, and the Company intends to vigorously contest the claims.

INSURANCE REGULATORY MATTERS

The Company's insurance subsidiaries are subject to extensive regulation in their states of domicile and the other states in which they do business under statutes that typically delegate broad regulatory, supervisory and administrative powers to state insurance departments and agencies. The method of regulation varies, but the subject matter of such regulation covers, among other things, the amount of dividends and other distributions that can be paid by the Company's insurance subsidiaries without prior approval or notification; the granting and revoking of licenses to transact business; trade practices, including with respect to the protection of consumers; disclosure requirements; privacy standards; minimum loss ratios; premium rate regulation; underwriting standards; approval of policy forms; methods and timing of claims payment; licensing of insurance agents and the regulation of their conduct; the amount and type of investments that the Company's subsidiaries may hold; minimum reserve and surplus requirements; risk-based capital requirements; and compelled participation in, and assessments in connection with, risk sharing pools and guaranty funds. Such regulation is intended to protect policyholders rather than investors.

The Company's insurance subsidiaries are required to file detailed annual statements with the state insurance regulatory departments, and state insurance departments have also periodically conducted and continue to conduct periodic financial and market conduct examinations of UICI's insurance subsidiaries. As of September 30, 2003, either or both MEGA and Mid-West were subject to ongoing market conduct examinations in 12 states. State insurance regulatory agencies have broad authority to levy monetary fines and penalties resulting from findings made during the course of such financial and market conduct examinations. Historically, the Company's insurance subsidiaries have from time to time been assessed such fines and penalties, none of which individually or in the aggregate have had a material adverse effect on the results of operations or financial condition of the Company.

The Company provides health insurance products to consumers in the self-employed market in 44 states. A substantial portion of such products is issued to members of various independent membership associations that endorse the products and act as the master policyholder for such products. The two principal membership associations in the self-employed market for which the Company underwrites insurance are the NASE and the Alliance for Affordable Services ("AAS"). The associations provide their membership with a number of endorsed benefits and products, including health insurance underwritten by the Company. Subject to applicable state law, individuals generally may not obtain insurance under an association's master policy unless they are also members of the associations. UGA agents and Cornerstone agents also act as field service representatives on behalf of the associations, in which capacity the agents act as enrollers of new members for the associations and provide field support services, for which the agents receive compensation. Specialized Association Services, Inc. (a company controlled by the adult children of the Chairman of the Company) provides administrative and benefit procurement services to the associations, and a subsidiary of the Company sells new membership sales leads to the enrollers and video and print services to the associations and to Specialized Association Services, Inc. In addition to health insurance premiums derived from the sale of health insurance, the Company receives fee income from the associations, including fees associated with the enrollment of new members, fees for association membership marketing and administrative services and fees for certain association member benefits. The agreements with these associations requiring the associations to continue as the master policyholder and to endorse the Company's insurance products to their respective members are terminable by the Company and the associations upon not less than one year's advance notice to the other party.

Articles in the press have been critical of association group coverage. In December 2002, the NAIC convened a special task force to review association group coverage, and the Company is aware that selected states are reviewing the laws and regulations under which association group policies are issued. As discussed above, the Company

and/or its insurance subsidiaries have also recently been named a party to several lawsuits challenging the nature of the relationship between the Company's insurance companies and the principal membership associations that have endorsed the insurance companies' health insurance products. While the Company believes it is providing association group coverage in full compliance with applicable law, changes in the relationship between the Company and the membership associations and/or changes in the laws and regulations governing so-called "association group" insurance (particularly changes that would subject the issuance of policies to prior premium rate approval and/or require the issuance of policies on a "guaranteed issue" basis) could have a material adverse impact on the financial condition, results of operations and/or business of the Company.

OTHER LITIGATION MATTERS

The Company and its subsidiaries are parties to various other pending legal proceedings arising in the ordinary course of business, including some asserting significant damages arising from claims under insurance policies, disputes with agents and other matters. Based in part upon the opinion of counsel as to the ultimate disposition of such lawsuits and claims, management believes that the liability, if any, resulting from the disposition of such proceedings will not be material to the Company's financial condition or results of operations.

NOTE K - RELATED PARTY TRANSACTIONS

SALE OF HEALTHAXIS, INC. EQUITY STAKE

Effective September 30, 2003, the Company sold to Healthaxis, Inc. ("HAI") its 49.25% equity interest in HAI for a sale price of $3.9 million, of which $500,000 was paid in cash at closing, and the balance was paid by an unsecured promissory note issued by HAI to the Company in the principal amount of $3.4 million. The note will be amortized by credits against amounts otherwise payable by UICI for data and imaging services provided from time to time by Healthaxis Imaging Services (a subsidiary of HAI), to The MEGA Life and Health Insurance Company, in accordance with an existing service agreement. The note has a three year term and is payable monthly in the amount of 50% of the service fees due pursuant to the service agreement or $65,000 per month, whichever is greater. The Company recognized a nominal loss for financial reporting purposes in connection with the sale.

RICHLAND STATE BANK TRANSACTION

Richland State Bank ("RSB") is a state-chartered bank in which Ronald L. Jensen (the Company's Chairman) holds a 100% equity interest. In accordance with the terms of a loan origination agreement with Academic Management Services Corp., RSB has historically provided to AMS certain loan origination and underwriting services with respect to an AMS student loan program for students in post-secondary education (primarily graduate health curricula). In accordance with the origination agreement, RSB originated the student loans and resold such loans to AMS at par plus an origination fee of 31 basis points (0.31%). In addition, the agreement provided that AMS was required to prefund all loans originated by RSB by depositing on account at RSB cash sufficient to fund the loans. All obligations of AMS under the loan origination agreement have been guaranteed by UICI.

Following announcement of collateral deficiencies at AMS in July 2003, AMS terminated the uninsured alternative student loan program for which RSB acts as originator. However, loans and loan commitments in process prior to July 16, 2003 have been and will continue to be funded. In an effort to free up cash to be used for operations at AMS, on September 25, 2003, AMS and RSB entered into an amendment to the loan origination agreement, pursuant to which RSB has agreed to release to AMS restricted cash on deposit (approximately $2.0 million) and hold the student loans until December 31, 2003 (in the case of fully funded loans) and May 20, 2004 (in the case of second disbursements).

AMENDMENT TO UICI - SPECIAL INVESTMENT RISKS, LTD. AGREEMENT

As previously disclosed, from the Company's inception through 1996, Special Investment Risks, Ltd. ("SIR") (formerly United Group Association, Inc.) (a company owned by the Company's Chairman) sold health insurance policies that were issued by AEGON USA and coinsured by the Company or policies that were issued directly by the Company. Effective January 1, 1997, the Company acquired the agency force of SIR and certain tangible assets of SIR for a price equal to the net book value of the tangible assets acquired and assumed certain agent commitments of $3.9 million. The tangible assets acquired consisted primarily of agent debit balances, a building, and related furniture and fixtures having a net book value of $13.1 million.

In accordance with the terms of an amendment, dated July 22, 1998, to the terms of the initial sale agreement governing the sale of the UGA assets to the Company, SIR was granted the right to retain 10% of net renewal commissions (computed at the UGA -- Association Field Services agency level) on any new business written by the UGA agency force after January 1, 1997. During the year ended December 31, 2002 and nine months ended September 30, 2003, the Company paid to SIR the amount of $1.9 million and $2.9 million, respectively, pursuant to this override arrangement.

In an effort to simplify the calculation of the payments to be made to Mr. Jensen and to clarify with specificity the business subject to the override arrangement, the Company and SIR have entered into an amendment to the asset sale agreement, the principal effect of which is to change the basis of the override calculation from a multiple of renewal commissions received by UGA - Association Field Services to a multiple of commissionable renewal premium received. Based on management's projections of future business, the Company estimates that the absolute amount of future override commission to be paid to SIR pursuant to the amendment will not vary in any material respect from that expected to be paid in accordance with the existing arrangement.

PURCHASE OF MINORITY INTEREST IN U.S. MANAGERS LIFE INSURANCE LTD.

As previously disclosed, UICI formerly held a 79% equity interest in U.S. Managers Life Insurance Company Ltd, a Turks and Caicos Islands domiciled insurer ("U.S. Managers"). The remaining 21% minority interest in U.S. Managers was held by Onward and Upward, Inc. ("OUI"), a corporation owned by the adult children of Ronald L. Jensen (the Company's Chairman). The shares held by OUI were subject to the terms of a Stock Agreement, dated as of January 3, 1992, as amended (the "Stock Agreement"), between UICI and OUI, pursuant to which OUI had a put, and UICI had a corresponding obligation to purchase, the minority interest in U.S. Managers at a formula price generally equal to the cost of such minority interest plus (or minus) cumulative earnings (losses) of U.S. Managers.

OUI notified UICI of its intent to exercise its put and sell its 21% minority interest in U.S. Managers at the formula price calculated as of July 31, 2003, and UICI and OUI entered into a Purchase Agreement governing the terms of the exercise of the put and sale to UICI of the minority interest. In accordance with the terms of the Purchase Agreement, on August 26, 2003, UICI purchased the 21% minority interest in U.S. Managers from OUI for a purchase price of $863,000, representing the formula price at July 31, 2003.

SALE OF SHARES BY MR. MUTZ

On May 6, 2003, the Company completed the purchase of 207,104 shares of UICI common stock from Gregory T. Mutz (the President and Chief Executive Officer of the Company until July 1, 2003). The shares were purchased for a total purchase price of $2.8 million, or $13.67 per share, which was the closing price of UICI shares on the New York Stock Exchange on May 5, 2003. Part of the proceeds from the sale was used to retire indebtedness owing by Mr. Mutz to the Company in the amount of $1.3 million, which indebtedness had initially been incurred by Mr. Mutz in 1998-99 to acquire shares of UICI stock pursuant to the Company's Executive Stock Purchase Program.

In a separate transaction, on May 8, 2003, Mr. Mutz sold 265,507 shares of UICI common stock to Ronald L. Jensen (Chairman of the Company). All of the proceeds of such sale were used by Mr. Mutz to pay in full indebtedness owing to Mr. Jensen, which indebtedness had initially been incurred to acquire shares of UICI stock in 1998.

TRANSFER OF MINORITY INTEREST IN SUNTECH PROCESSING SYSTEMS, LLC

On May 13, 2003, the Company, Mr. Jensen and the plaintiffs reached agreement on a full and final settlement of litigation (Sun Communications, Inc. v. SunTech Processing Systems, LLC, UICI, Ronald L. Jensen, et al) concerning the distribution of the cash proceeds from the sale and liquidation of SunTech Processing Systems, LLC ("STP") assets in February 1998 (the "Sun Litigation").

As previously disclosed, effective April 2, 2002, the Company and Mr. Jensen entered into an Assignment and Release Agreement, which, among other things, transferred UICI's financial and other rights and obligations in STP to Mr. Jensen and effectively terminated the Company's active participation in, and limited the Company's financial exposure associated with, the Sun Litigation. In accordance with the terms of the Assignment and Release Agreement, on April 2, 2002 Mr. Jensen made a total payment to UICI of $15.6 million and granted to UICI various indemnities against possible losses which UICI might incur resulting from the Sun Litigation. In addition, as part of

the terms of the Assignment and Release Agreement UICI granted to Mr. Jensen an irrevocable option to purchase and to receive an assignment of UICI's membership interests, including without limitation all of UICI's Class A Interests and Class B Interests (constituting an 80% economic interest) in STP for an exercise price of $100.

Following settlement of the Sun Litigation, and pursuant to the terms of an agreement dated as of June 17, 2003, by and between UICI and Mr. Jensen, Mr. Jensen exercised his option to purchase UICI's membership interests in STP, and UICI assigned and transferred to Mr. Jensen all of the Company's right, title and interest in and to such STP membership interests. For financial reporting purposes the Company recognized no gain or loss in connection with this transaction.

NOTE L - SEGMENT INFORMATION

The Company's operating segments included in operations are: (i) Insurance, which includes the businesses of the Self Employed Agency Division, the Group Insurance Division (formerly the Company's Student Insurance Division, which includes the operations of the Company's recently-acquired STAR HRG business unit effective February 28, 2002), and the Life Insurance Division (formerly the Company's OKC Division, which includes the Company's College Fund Life Division), (ii) Financial Services, which included (until its sale effective September 30, 2003) the Company's investment in Healthaxis, Inc., and (iii) Other Key Factors.

Effective January 1, 2003, the Company began to allocate to the Company's operating business segments certain general expenses relating to corporate operations (consisting primarily of technology related expenses and expenses associated with the operations of the Company's insurance company subsidiaries), which expenses had been formerly reflected in the Other Key Factors segment. All business segment results for all periods presented have been restated to reflect such allocation of these expenses. The Company believes that this allocation of certain general expenses relating to corporate operations results in a more accurate portrayal of the financial results of its core insurance and other operations. The Other Key Factors segment now includes investment income not allocated to the other business segments, realized gains or losses on sale of investments, the operating results at the Company's former Barron Risk Management Services, Inc. unit until its sale in September 2002, the operations of the Company's AMLI Realty Co. subsidiary, certain other general expenses related to corporate operations, minority interest, interest expense on corporate debt and variable stock-based compensation.

Allocations of investment income and certain general expenses are based on a number of assumptions and estimates, and the business segments reported operating results would change if different methods were applied. Certain assets are not individually identifiable by segment and, accordingly, have been allocated by formulas. Segment revenues include premiums and other policy charges and considerations, net investment income, fees and other income. Management does not allocate income taxes to segments. Transactions between reportable operating segments are accounted for under respective agreements, which provide for such transactions generally at cost.

Revenues from continuing operations, income from continuing operations before federal income taxes, and assets by operating segment are set forth in the tables below:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS E SEPTEMBER
	2003	2002	2003
		(IN THOUSANDS)	
Revenues			
Insurance:			
Self Employed Agency Division..............	$344,999	$273,794	$ 982,715
Group Insurance Division...................	87,730	65,406	254,031
Life Insurance Division....................	16,295	17,773	48,188
	449,024	356,973	1,284,934
Other Key Factors..........................	4,557	5,283	11,118
Intersegment Eliminations..................	(14)	--	(554)
Total revenues from continuing operations......	$453,567	$362,256	$1,295,498

23

	THREE MONTHS ENDED SEPTEMBER 30,		
	2003	2002	2
			(IN THOUSANDS)

Income (loss) from continuing operations before federal income taxes:			
Insurance:			
Self Employed Agency Division........................	$ 32,517	$23,128	$8
Group Insurance Division.............................	(12,075)	3,030	(
Life Insurance Division..............................	(296)	1,243	(
	20,146	27,401	7
Financial Services:			
Losses in Healthaxis, Inc. investment................	(1,266)	(796)	(
	(1,266)	(796)	(
Other Key Factors:			
Investment income on equity, realized gains and losses, general corporate expenses and other (including interest expense on non-student loan indebtedness)..	711	960	
Variable stock-based compensation (expense) benefit..	1,211	(3,890)	
	1,922	(2,930)	
Total income from continuing operations before federal income taxes...	$ 20,802	$23,675	$7

	SEPTEMBER 30, 2003	DECEMBER 31, 2002
	(IN THOUSANDS)	
Assets		
Insurance:		
Self Employed Agency Division...........	$ 742,140	$ 665,938
Group Insurance Division................	223,122	152,858
Life Insurance Division.................	612,280	630,238
	1,577,542	1,449,034
Financial Services:		
AMS assets held for sale................	1,910,245	1,842,773
Investment in Healthaxis, Inc...........	--	4,929
	1,910,245	1,847,702
Other Key Factors:		
General corporate and other.............	398,528	424,768
Total assets............................	$ 3,886,315	$ 3,721,504

NOTE M - STOCK OPTIONS

The Company has historically accounted for the stock-based compensation plans under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. Under APB 25, because the exercise price of the

Company's employee stock options has been equal to the market price of underlying stock on the date of grant, no compensation expense has to date been recognized. On January 1, 2003, the Company adopted Statement No. 123 for all employee awards granted or modified on or after January 1, 2003, and will begin measuring the compensation cost of stock-based awards under the fair value method. The Company adopted Statement No. 148 on January 1, 2003 and has adopted the transition provisions that require expensing options prospectively in the year of adoption. Existing awards will continue to follow the intrinsic value method prescribed by APB 25. The impact of implementation on the Company's financial position or results of operations was not material.

Pro forma information regarding net income and earnings per share is required by Statement No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for all options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2003: risk-free interest rate 2.00%; dividend yield of 0%, volatility factor of the expected market price of the Company's common stock of 0.58; and a weighted-average expected life of the option of 3.00 years. The weighted average grant date fair value per share of stock options issued in 2003 was $4.54. The weighted-average assumptions for 2002: risk-free interest rate 3.53%; dividend yield of 0%, volatility factor of the expected market price of the Company's common stock of 0.65; and a weighted-average expected life of the option of 4.26 years. The weighted average grant date fair value per share of stock options issued in 2002 was $4.46.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The effect on net income of the stock compensation amortization for the periods presented above is not likely to be representative of the effects on reported net income for future periods. The Company's pro forma information is set forth below (in thousands except for earnings per share information):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MO SEPTE
	2003	2002	2003
	(DOLLARS IN THOUSANDS EXCEPT PER SHA		
Pro forma income (loss):			
Income from continuing operations....................	$ 13,754	$ 15,463	$ 47,020
Income (loss) from discontinued operations............	(67,101)	422	(72,716)
Loss from cumulative effect of accounting change......	--	--	--
Net income...	$ (53,347)	$ 15,885	$ (25,696)
Pro forma earnings (loss) per common share:			
Basic earnings:			
Income from continuing operations...................	$ 0.30	$ 0.32	$ 1.02
Income (loss) from discontinued operations...........	(1.45)	0.01	(1.57)
Loss from cumulative effect of accounting change.....	--	--	--
Net income (loss)................................	$ (1.15)	$ 0.33	$ (0.55)
Diluted earnings:			

Income from continuing operations	$ 0.29	$ 0.31	$ 0.98
Income (loss) from discontinued operations	(1.40)	0.01	(1.51)
Loss from cumulative effect of accounting change	--	--	--
Net income (loss)	$ (1.11)	$ 0.32	$ (0.53)

NOTE N - EMPLOYEE AND AGENT STOCK ACCUMULATION PLANS

UICI EMPLOYEE STOCK OWNERSHIP AND SAVINGS PLAN

The Company maintains for the benefit of its and its subsidiaries' employees the UICI Employee Stock Ownership and Savings Plan (the "Employee Plan").

During the three and nine months ended September 30, 2002, the Company recorded an expense of $2.5 million and $5.7 million, respectively, related to stock appreciation expense with respect to the Employee Plan. This expense represented the incremental compensation expense associated with the allocation to participants' accounts during the respective period of shares, previously purchased in 2000 by the Employee Plan from the Company at $5.25 per share ("$5.25 ESOP Shares") to fund the Company's matching and supplemental contributions to the ESOP. The allocated $5.25 ESOP Shares were considered outstanding for purposes of the computation of earnings per share. The Employee Plan initially purchased in 2000 an aggregate of 1,610,000 $5.25 ESOP Shares, and as of December 31, 2002 all such shares had been allocated to participants' accounts. During the fourth quarter of 2002, the Company allocated the remaining unallocated shares to participants' accounts.

AGENT STOCK ACCUMULATION PLANS

The Company sponsors a series of stock accumulation plans (the "Agent Plans") established for the benefit of the independent insurance agents and independent sales representatives associated with its field force agencies, including UGA -- Association Field Services, New United Agency and Cornerstone Marketing of America.

The Agent Plans generally combine an agent-contribution feature and a Company-match feature. The agent-contribution feature generally provides that eligible participants are permitted to allocate a portion (subject to prescribed limits) of their commissions or other compensation earned on a monthly basis to purchase shares of UICI common stock at the fair market value of such shares at the time of purchase. Under the Company-match feature of the Agent Plans, participants are eligible to have posted to their respective Agent Plan accounts book credits in the form of equivalent shares based on the number of shares of UICI common stock purchased by the participant under the agent-contribution feature of the Agent Plans. The "matching credits" vest over time (generally in prescribed increments over a ten-year period, commencing the plan year following the plan year during which contributions are first made under the agent-contribution feature), and vested matching credits in a participant's plan account in January of each year are converted from book credits to an equivalent number of shares of UICI common stock. Matching credits forfeited by participants no longer eligible to participate in the Agent Plans are reallocated each year among eligible participants and credited to eligible participants' Agent Plan accounts.

The Agent Plans do not constitute qualified plans under Section 401(a) of the Internal Revenue Code of 1986 or employee benefit plans under the Employee Retirement Income Security Act of 1974 ("ERISA"), and the Agent Plans are not subject to the vesting, funding, nondiscrimination and other requirements imposed on such plans by the Internal Revenue Code and ERISA.

Prior to July 1, 2000, the Company granted matching credits in an amount equal to the number of shares of UICI common stock purchased by the participant under the agent-contribution feature of the Agent Plans. Effective July 1, 2000, the Company modified the formula for calculating the number of matching credits to be posted to participants' accounts. During the period beginning July 1, 2000 and ending on the earlier of June 30, 2002 or the date that an aggregate of 2,175,000 share equivalents had been granted under this revised formula, the number of matching credits issued to an individual participant will be the greater of (a) the number of matching credits

determined each month by dividing the dollar amount of the participant's contribution for that month by $5.25, or (b) the actual number of shares acquired, at then-current fair market value, by the participant's contribution amount.

Prior to July 1, 2000, the Company purchased UICI shares in the open market from time to time to satisfy its commitment to issue its shares upon vesting of matching credits under the Agent Plans. During the period beginning July 1, 2000 and ending July 31, 2002, the Company agreed to utilize up to 2,175,000 newly issued shares to satisfy its commitment to deliver shares that will vest under the Company-match feature of the agent plans. Under the arrangement effective July 1, 2000, the Company's subsidiaries transferred to the holding company $5.25 per share for any newly issued shares utilized to fund vested matching credits under the plans. In accordance with such arrangement, during the period commencing July 1, 2000 and ending on July 31, 2002, the Company issued to the subsidiaries an aggregate of 1,765,251 shares, for which the Company's subsidiaries transferred to the Company at the holding company level cash in the aggregate amount of $9.3 million. Subsequent to July 31, 2002, the Company resumed purchasing UICI shares in the open market from time to time to satisfy its commitment to issue its shares upon vesting of matching credits under the Agent Plans.

For financial reporting purposes, the Company accounts for the Company-match feature of its Agent Plans under EITF 96-18 "Accounting for Equity Instruments that are issued to Other Than Employees for Acquiring or in Connection with Selling Goods and Services," by recognizing compensation expense over the vesting period in an amount equal to the fair market value of vested shares at the date of their vesting and distribution to the participants. At each quarter-end, the Company estimates its current liability for unvested matching credits by reference to the number of unvested credits, the current market price of the Company's common stock, and the Company's estimate of the percentage of the vesting period that has elapsed up to the current quarter end. Changes in the liability from one quarter to the next are accounted for as an increase in, or decrease to, compensation expense, as the case may be. Upon vesting, the Company releases the accrued liability (equal to the market value of the vested shares at date of vesting) with a corresponding increase to paid-in capital. Unvested matching credits are considered share equivalents outstanding for purposes of the computation of earnings per share. For the three months ended September 30, 2003 and 2002, the Company recorded total compensation expense associated with these agent plans in the amount of $(1.2) million and $(3.0) million, respectively, of which a $1.2 million benefit and $(1.3) million expense, respectively, represent the non-cash stock based compensation associated with the adjustment to the liability for future unvested benefits. For the nine months ended September 30, 2003 and 2002, the Company recorded total compensation expense associated with these agent plans in the amount of $(5.8) million and $(11.9) million, respectively, of which a $1.7 million benefit and $(7.1) million expense, respectively, represented the non-cash stock based compensation benefit (expense) associated with the adjustment to the liability for future unvested benefits.

At December 31, 2002, the Company had recorded approximately 1.9 million unvested matching credits associated with the Agent Plans, of which 697,000 vested in January 2003. At September 30, 2003, the Company had recorded approximately 1.8 million unvested matching credits.

The accounting treatment of the Company's Agent Plans will result in unpredictable stock-based compensation expense charges, dependent upon fluctuations in the quoted price of UICI common stock. These unpredictable fluctuations in stock based compensation charges may result in material non-cash fluctuations in the Company's results of operations. In periods of general decline in the quoted price of UICI common stock, if any, the Company will recognize less stock based compensation expense than in periods of general appreciation in the quoted price of UICI common stock. In addition, in circumstances where increases in the quoted price of UICI common stock are followed by declines in the quoted price of UICI common stock, negative compensation expense may result as the Company adjusts the cumulative liability for unvested stock-based compensation expense.

NOTE O - CORPORATE OVERHEAD ALLOCATION

Effective January 1, 2003, the Company began to allocate to the Company's operating business segments certain general expenses relating to corporate operations (consisting primarily of technology related expenses and expenses associated with the operations of the Company's insurance company subsidiaries), which expenses had been formerly reflected in the Other Key Factors segment. The Company believes that this allocation of certain general expenses relating to corporate operations results in a more accurate portrayal of the financial results of its core insurance and other operations. The Other Key Factors segment now includes investment income not allocated to the other business segments, realized gains or losses on sale of investments, the operating results at the Company's former Barron Risk Management Services, Inc. unit until its sale in September 2002, the operations of the Company's AMLI Realty Co. subsidiary, certain other general expenses related to corporate operations, minority

interest, interest expense on corporate debt and variable stock-based compensation.

Following is a summary of the Company's quarterly segment results for the year ended December 31, 2002, adjusted to reflect the allocation to the Company's operating business segments of certain general expenses relating to corporate operations as discussed above:

	THREE MONTHS ENDED			
	MAR 31, 2002	JUN 30, 2002	SEP 30, 2002	
		(IN THOUSANDS)		
Income (loss) from continuing operations before federal income taxes:				
Insurance:				
Self Employed Agency Division..................	$ 15,748	$ 19,671	$ 23,127	$
Group Insurance Division.......................	1,747	3,311	3,030	
Life Insurance Division........................	2,615	2,817	1,243	

	20,110	25,799	27,400	
Financial Services:				
Losses in Healthaxis, Inc. investment..........	(174)	(7,925)	(796)	
	(174)	(7,925)	(796)	
Other Key Factors:				
Investment income on equity, realized gains and losses, general corporate expenses and other (including interest expense on non-student loan indebtedness)...............................	(337)	(3,754)	961	
Variable stock-based compensation expense......	(4,251)	(6,117)	(3,890)	
	(4,588)	(9,871)	(2,929)	
Total income from continuing operations before federal income taxes...........................	$ 15,348	$ 8,003	$ 23,675	$

NOTE P - SUBSEQUENT EVENTS

As further discussed in Note C, on October 29, 2003, UICI executed a definitive agreement with SLM Corporation ("Sallie Mae"), pursuant to which UICI will sell its entire equity interest in AMS. The Company has estimated that the sale of AMS to Sallie Mae, if and when completed, will generate net cash proceeds to UICI of approximately $25.3 million. At closing, UICI will also receive uninsured student loan assets currently held by AMS' special purpose financing subsidiaries with a face amount of approximately $44.7 million (including accrued interest). The fair value of the uninsured loans is expected to be significantly less than the face amount of the loans.

Closing of the transaction is anticipated to occur in November 2003 and is subject to satisfaction of several closing conditions, including expiration or earlier termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. While the Company believes that it will be able to satisfy all conditions to closing, there can be no assurance that the conditions to closing will be satisfied or that the transaction contemplated by the definitive agreement will in fact be completed.

In full payment of all contingent consideration payable in connection with UICI's February 2002 acquisition of STAR HRG, on November 10, 2003 UICI delivered to the sellers UICI's 6% convertible subordinated notes in the aggregate principal amount of $15.0 million, together with cash interest in the aggregate amount of approximately $1.5 million. The subordinated notes are convertible into UICI Common Stock at a conversion price of $20.06 per common share. See Note G of Notes to Condensed Consolidated Financial Statements.

In November 2003, the Company's wholly owned subsidiary, The MEGA Life and Health Insurance Company ("MEGA") sold an aggregate of 1,722,086 shares of beneficial interest in AMLI Residential Properties Trust ("AML") in a series of privately negotiated transactions. In connection with the sales, the Company will recognize a gain in the amount of $39.8 million ($25.9 million, or $0.54 per share, net of tax) in the quarter ending December 31, 2003. The Company effected such sales to diversify its portfolio and to generate taxable capital gains that may be used to offset capital losses from other investments. The Company through its various subsidiaries continues to hold 828,900 AML shares with an aggregate cost basis of $18.6 million ($22.41 average cost per share). These remaining AML shares are subject to various resale restrictions imposed by federal and state securities laws.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The Company's operating segments include: (i) Insurance, which includes the businesses of the Self Employed Agency Division, the Group Insurance Division (formerly the Company's Student Insurance Division, which includes the operations of the Company's STAR HRG business unit effective February 28, 2002), and the Life Insurance Division (formerly the Company's OKC Division), (ii) Financial Services, which includes the Company's investment in Healthaxis, Inc., and (iii) Other Key Factors.

Effective January 1, 2003, the Company began to allocate to the Company's operating business segments certain general expenses relating to corporate operations (consisting primarily of technology related expenses and expenses associated with the operations of the Company's insurance company subsidiaries), which expenses had been formerly reflected in the Other Key Factors segment. The Company believes that this allocation of certain general expenses relating to corporate operations results in a more accurate portrayal of the financial results of its core insurance and other operations. The Other Key Factors segment now includes investment income not allocated to the other business segments, realized gains or losses on sale of investments, the operating results at the Company's former Barron Risk Management Services, Inc. unit until its sale in September 2002, the operations of the Company's AMLI Realty Co. subsidiary, certain other general expenses related to corporate operations, minority interest, interest expense on corporate debt and variable stock-based compensation.

RECENT DEVELOPMENTS

Academic Management Services Corp.

On October 29, 2003, UICI executed a definitive agreement with SLM Corporation ("Sallie Mae"), pursuant to which UICI will sell its entire equity interest in AMS. The Company has estimated that the sale of AMS to Sallie Mae, when completed, will generate net cash proceeds to UICI of approximately $25.3 million. At closing, UICI will also receive uninsured student loan assets currently held by AMS' special purpose financing subsidiaries with a face amount of approximately $44.7 million (including accrued interest). The fair value of the uninsured loans is expected to be significantly less than the face amount of the loans.

Closing of the transaction is anticipated to occur in November and is subject to satisfaction of several closing conditions, including expiration or earlier termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. While the Company believes that it will be able to satisfy all conditions to closing, there can be no assurance that the conditions to closing will be satisfied or that the transaction contemplated by the definitive agreement will in fact be completed.

The Company has classified AMS as a discontinued operation for financial reporting purposes as of September 30, 2003. Reflecting the fair market value of AMS implied by the proposed transaction with Sallie Mae, UICI recorded in the three and nine months ended September 30, 2003 a pre-tax loss (consisting of an estimated loss upon disposal of AMS and AMS' operating results in the periods) in the amount of $(77.5) million ($(66.9) million net of tax) and $(75.3) million ($(65.6) million net of tax), respectively. Exclusive of the estimated loss upon disposal of AMS in the amount of $(61.2) million (net of tax), in the three and nine months ended September 30, 2003 AMS reported operating losses (net of tax) in the amount of $(5.7) million and $(4.4) million, respectively, compared to operating income (net of tax) of $1.8 million and $5.4 million in the corresponding periods of the prior year.

AMS historically financed its student loan origination activities through seven special purpose subsidiaries ("Special Purpose Subsidiaries") (EFG-II LP, EFG-III LP, EFG Funding LLC, EFG-IV LP, AMS-I 2002 LP, AMS-II 2002 LP and AMS-III 2003 LP), through which it has outstanding six secured student loan financing facilities that issue debt securities secured by student loans and other qualified collateral. EFG-II LP was liquidated in September 2003 when substantially all of the loans owned by the special purpose subsidiary were sold (approximately $105.5 million of principal and accrued interest) and the associated debt was repaid. The Company recorded a gain of $2.0 million from the liquidation of this facility.

On July 21, 2003, UICI reported the discovery of certain defaults under the documents governing AMS' six secured student loan financing facilities. The defaults consisted of insufficient collateral, a higher percentage of alternative loans (i.e., loans that are privately guaranteed as opposed to loans that are guaranteed by the federal government) included in the existing collateral than permitted by the loan eligibility provisions of the financing documents and failure to provide timely and accurate reporting to each of the various financial institutions that are parties to the financings. On July 24, 2003, AMS obtained waivers and releases from interested third parties with respect to four of the six securitized student loan financing facilities.

The waiver and release agreement with respect to the EFG-III, LP commercial paper securitized student loan facility required UICI's contribution to the capital of AMS of $48.25 million, which, as of July 31, 2003, UICI had contributed to AMS. UICI believes that it has no obligations with respect to the indebtedness of AMS' Special Purpose Subsidiaries or with respect to the obligations of AMS relating to such financings. Nonetheless, in exchange for UICI's capital contribution to AMS, the financial institutions agreed to release UICI from any and all existing claims or suits (other than claims for fraud at the UICI level) that could arise relating to the AMS student loan financing facilities.

See Note C of Notes to Condensed Consolidated Financial Statements for additional information with respect to the AMS securitized student loan financing facilities, the defaults thereunder announced in July 2003 and the waivers of such defaults obtained from the interested financing parties.

As discussed above, UICI has executed a definitive agreement with Sallie Mae to sell AMS. Pursuant to the definitive agreement and if the transaction contemplated thereby closes, Sallie Mae has agreed to assume responsibility for liquidating and terminating all of the remaining special purpose financing facilities through which AMS previously securitized student loans.

In July and August 2003, the Audit Committee of UICI's Board of Directors, with the assistance of independent counsel, conducted an investigation into the matters and events leading to the announcement of the collateral shortfalls at AMS' student loan financing facilities. Based on that investigation, the Company believes that UICI's previously published consolidated financial statements have been fairly presented.

Sale of AMLI Residential Properties Trust Shares

In November 2003, the Company's wholly-owned subsidiary, The MEGA Life and Health Insurance Company ("MEGA") sold an aggregate of 1,722,086 shares of beneficial interest in AMLI Residential Properties Trust ("AML") in a series of privately negotiated transactions. In connection with the sales, the Company will recognize a gain in the amount of $39.8 million ($25.9 million, or $0.54 per share, net of tax) in the quarter ending December 31, 2003. The Company effected such sales to diversify its portfolio and to generate taxable capital gains that may be used to offset capital losses from other investments. The Company through its various subsidiaries continues to hold 828,900 AML shares with an aggregate cost basis of $18.6 million ($22.41 average cost per share). These remaining AML shares are subject to various resale restrictions imposed by federal and state securities laws.

RESULTS OF OPERATIONS

Revenues and income from continuing operations before federal income taxes ("operating income") by business segment are summarized in the tables below.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTH SEPTEMB
	2003	2002	2003
	(IN THOUSANDS)		
Revenues			
Insurance:			
Self Employed Agency Division..............	$344,999	$273,794	$ 982,715
Group Insurance Division...................	87,730	65,406	254,031
Life Insurance Division....................	16,295	17,773	48,188
	449,024	356,973	1,284,934
Other Key Factors..........................	4,557	5,283	11,118
Intersegment Eliminations..................	(14)	--	(554)
Total revenues from continuing operations......	$453,567	$362,256	$1,295,498

	THREE MONTHS ENDED SEPTEMBER 30,		
	2003	2002	2
	(IN THOUSANDS)		
Income (loss) from continuing operations before federal income taxes:			

Insurance:			
Self Employed Agency Division	$32,517	$23,128	$8
Group Insurance Division	(12,075)	3,030	(
Life Insurance Division	(296)	1,243	(
	20,146	27,401	7
Financial Services:			
Losses in Healthaxis, Inc. investment	(1,266)	(796)	(
	(1,266)	(796)	(
Other Key Factors:			
Investment income on equity, realized gains and losses, general corporate expenses and other (including interest expense on non-student loan indebtedness)	711	960	
Variable stock-based compensation (expense) benefit	1,211	(3,890)	
	1,922	(2,930)	
Total income from continuing operations before federal income taxes	$20,802	$23,675	$7

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(1) As discussed above, effective January 1, 2003, the Company began to allocate to the Company's operating business segments certain general expenses relating to corporate operations (consisting primarily of technology related expenses and expenses associated with the operations of the Company's insurance company subsidiaries), which expenses had been formerly reflected in the Other Key Factors segment. All business segment results for all periods presented have been restated to reflect the allocation of these expenses.

UICI's results of operations for the three and nine months ended September 30, 2003 were particularly impacted by the following factors:

Self Employed Agency Division

The Company's Self Employed Agency ("SEA") Division enjoyed significant continued period-over-period growth in both revenue and operating income. Operating income increased to $32.5 million and $80.8 million in the three and nine-month periods ended September 30, 2003, respectively, from $23.1 million and $58.5 million in the corresponding 2002 periods. Earned premium revenue increased from $245.7 million in the third quarter of 2002 to $311.3 million in the third quarter of 2003 and from $664.3 million in the first nine months of 2002 to $890.5 million in the first nine months of 2003. Submitted annualized premium volume (i.e., the aggregate annualized premium amount associated with health insurance applications submitted by the Company's agents for underwriting by the Company) decreased in the nine months ended September 30, 2003 to $691.4 million from $708.3 million in the corresponding 2002 period. Submitted annualized premium volume decreased to $228.6 million in the third quarter of 2003 from $250.5 million in the corresponding period of the prior year.

Operating income as a percentage of earned premium revenue in the three and nine months ended September 30, 2003 was 10.4% and 9.1%, respectively, compared to 9.4% and 8.8% in the corresponding periods of the prior year. This increase in operating margin was attributable primarily to lower commission expense and a slightly lower loss ratio. The SEA Division's results for the first nine months of 2003 included pre-tax income in the amount of $4.8 million associated with the release of reserves resulting from an adjustment to the Company's reserve methodology and certain changes in accounting estimates.

Group Insurance Division

The Company's Group Insurance Division (consisting of the Company's Student Insurance and Star HRG business units) reported operating losses of $(12.1) million and $(4.0) million in the three and nine months ended September 30, 2003, respectively, reflecting a previously reported increase in loss reserves recorded in the third quarter in the amount of $13.1 million ($8.5 million net of tax, or ($0.18) per diluted share). In the three and nine months ended September 30, 2002, the Company reported operating income at its Group Insurance Division of $3.0 million and $8.1 million, respectively.

Substantially all of the operating losses in the 2003 periods at the Group Insurance segment was attributable to results at the Company's Student Insurance Division, which offers tailored health insurance programs that generally provide single school year coverage to individual students at colleges and universities. Results at the Company's Student Insurance Division also reflected a significant amount of seasonal marketing and administrative costs incurred in the third quarter related to policies written covering the full 2003 - 2004 school year. For the full 2003 calendar year, the Company currently anticipates that its Group Insurance business segment will report an operating loss in the amount of approximately $(4.0) million ($(2.6) million net of tax, or $(0.05) per diluted share). Because Student Insurance policies are issued on a school year basis and the 2003-2004 school year has just begun, the

30

Student Insurance Division will be limited in its ability to reprice its overall book of business until August 2004. As a result, the Company currently anticipates that results at Student Insurance for calendar year 2004 will be at or near breakeven.

Life Insurance Division

For the three and nine months ended September 30, 2003, the Company's Life Insurance Division reported operating losses of $(296,000) and $(3.2) million, respectively, compared to operating income of $1.2 million and $6.7 million in the corresponding 2002 periods. The operating losses in the 2003 interim periods were primarily attributable to a reserve increase in the Company's former workers compensation business, a previously announced charge associated with the final resolution of litigation arising out of the close down in 2001 of the Company's former workers compensation business, costs associated with the closedown of the Company's College Fund Life Division operations, and a decrease in investment income allocated to the segment.

Other Key Factors

In the three and nine months ended September 30, 2003, the Company's Other Key Factors segment reported operating income of $1.9 million and $742,000, respectively, compared to operating losses of $(2.9) million and $(17.4) million, respectively, in the corresponding periods of 2002. The increase in income in the Other Key Factors category in the three and nine months ended September 30, 2003 as compared to 2002 was primarily attributable to a decrease in variable stock-based compensation and net realized gains in 2003 compared to net realized losses in 2002, offset by a decrease in investment income attributable to equity determined after allocation to operating segment portfolios. For the three and nine months ended September 30, 2003, the Company experienced a $5.1 million and $15.9 million decrease, respectively, in variable stock-based compensation expense (as discussed more fully below), compared to the corresponding periods of the prior year, and the Company recorded realized gains in the amount of $1.9 million and $1.7 million, respectively, compared to realized losses of $(398,000) and $(6.2) million in the corresponding 2002 periods. The continued lower prevailing interest rate environment in 2003 negatively affected investment income attributable to equity determined after allocation to operating segment portfolios. Investment income after allocation to the operating segments decreased by $2.0 million in the third quarter of 2003 and by $4.2 million in the first nine months of 2003, in each case as compared to such income in the corresponding 2002 periods.

In connection with the Company's stock accumulation plans established for the benefit of the independent insurance agents and independent sales representatives associated with UGA -- Association Field Services, New United Agency and Cornerstone America, the Company has recognized and will continue to recognize non-cash variable stock-based compensation benefit (expense) in amounts that depend and fluctuate based upon the market performance of the Company's common stock. In the three and nine months ended September 30, 2003, the Company recognized a non-cash variable stock-based benefit in the amount of $1.2 million and $1.7 million, respectively, associated with its agent stock accumulation plans. During the three and nine months ended September 30, 2002, the Company recognized non-cash variable stock-based expense in the amount of $(3.9) million and $(14.3) million, respectively, of which $(1.3) million and $(7.1) million, respectively, was attributable to the Company's stock accumulation plans established for the benefit of its independent agents, $(2.5) million and $(5.7) million, respectively, was attributable to the allocation of the $5.25 UICI shares under the UICI Employee Stock Ownership and Savings Plan and $(100,000) and $(1.5) million, respectively, was attributable to other stock-based compensation plans. As of December 31, 2002, all $5.25 UICI shares had been allocated to participants' accounts under UICI's Employee Stock Ownership and Savings Plan. Accordingly, in all periods commencing after December 31, 2002 the Company will not recognize additional variable stock-based compensation associated with the ESOP feature of the UICI Employee Stock Ownership and Savings Plan.

Discontinued Operations

For financial reporting purposes, the Company has classified as discontinued operations its former sub-prime credit card unit, its Special Risk Division, its Senior Market Division and its Academic Management Services Corp. ("AMS") subsidiary. The Company's results in the three and nine months ended September 30, 2003 included losses from discontinued operations in the amount of $(67.1) million and $(72.7) million, net of tax ($(1.40) per diluted share and $(1.52) per diluted share), respectively. For the three and nine months ended September 30, 2002, the Company's results from discontinued operations reflected income in the amount of $422,000 and $2.0 million (net of tax) ($0.01 per diluted share and $0.04 per diluted share), respectively.

31

As previously reported, on October 29, 2003, UICI executed a definitive agreement with SLM Corporation ("Sallie Mae"), pursuant to which UICI will sell its entire equity interest in Academic Management Services Corp. The Company has estimated that the sale of AMS to Sallie Mae, when completed, will generate net cash proceeds to UICI of approximately $25.3 million. At closing, UICI will also receive uninsured student loan assets currently held by AMS' special purpose financing subsidiaries with a face amount of approximately $44.7 million (including accrued interest). The fair value of the uninsured loans is expected to be significantly less than the face amount of the loans.

Closing of the transaction is anticipated to occur in November 2003 and is subject to satisfaction of several closing conditions, including expiration or earlier termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. While the Company believes that it will be able to satisfy all conditions to closing, there can be no assurance that the conditions to closing will be satisfied or that the transaction contemplated by the definitive agreement will in fact be completed.

The Company has classified AMS as a discontinued operation for financial reporting purposes at the end of the third quarter. Reflecting the fair market value of AMS implied by the proposed transaction with Sallie Mae, UICI recorded in the three and nine months ended September 30, 2003 a loss (consisting of an estimated loss upon disposal of AMS and AMS' operating results in the periods) in the amount of $(77.5) million ($(66.9) million net of tax, and $(75.3) million ($(65.6) million net of tax, respectively. Exclusive of the estimated loss upon disposal in the amount of $(61.2) million (net of tax) in the three and nine months ended September 30, 2003 AMS reported operating losses (net of tax) in the amount of $(5.7) million and $(4.4) million, respectively, compared to operating income (net of tax) of $1.8 million and $5.4 million, respectively, in the corresponding periods of the prior year.

The Company does not anticipate that the closing of the sale of AMS or future operating results at AMS will have a material effect on UICI's future consolidated results of operations.

Results from discontinued operations for all periods presented also include the results of the Company's former Senior Market Division, which the Company closed down in the quarter ended June 30, 2003. In the three and nine months ended September 30, 2003, the Company reported losses associated with the former Senior Market Division in the amount of $(161,000) and $(9.1) million (net of tax), respectively, compared to losses in the amount of $(1.4) million and $(3.5) million (net of tax), respectively, in the comparable periods in 2002. The losses in the 2003 periods were primarily attributable to a loss of $(5.5) million (net of tax) recognized in the second quarter of 2003 upon sale of the Company's interest in the agency through which the Company formerly marketed and distributed insurance products to the senior market, a write off of impaired assets, operating losses incurred at the Senior Market Division through the close-down date and costs associated with the wind down and closing of the operations.

Sale of Healthaxis, Inc. Equity Stake

Effective September 30, 2003, the Company sold to Healthaxis, Inc. its entire 49.25% equity interest in Healthaxis, Inc. for a total sale price of $3.9 million, of which $500,000 was paid in cash at closing, and the balance was paid by delivery of a promissory note payable to the Company in the amount of $3.4 million. The Company recognized a nominal loss for financial reporting purposes in connection with the sale.

Self Employed Agency Division -- Reserve Adjustments

Effective January 1, 2003, the Company's SEA Division made adjustments to its reserve methodology and certain changes in accounting estimates, the net effect of which decreased reserves and correspondingly increased operating income reported by the SEA Division in the amount of $4.8 million in the first quarter of 2003. See Note A of Notes to Condensed Consolidated Financial Statements for a summary of the adjustments and changes in accounting estimates made by the Company.

LIQUIDITY AND CAPITAL RESOURCES

Historically, the Company's primary sources of cash on a consolidated basis have been premium revenues from policies issued, investment income, fees and other income, and borrowings to fund student loans. The primary uses of cash have been payments for benefits, claims and commissions under those policies, operating expenses and the funding of student loans. In the nine months ended September 30, 2003, net cash provided by operations totaled approximately $184.1 million, compared to net cash provided by operations of $274.9 million in the corresponding period of 2002.

As previously discussed (see "Recent Developments - - Academic Management Services Corp." above), on July 31, 2003, UICI completed its contribution to the capital of AMS of cash in the amount of $48.25 million in accordance with the terms of the waiver and release agreements with the interested third parties to the AMS financings. UICI is a holding company, the principal assets of which are its investments in its separate operating subsidiaries, including its regulated insurance subsidiaries. The holding company's ability to fund its cash requirements is largely dependent upon its ability to access cash, by means of interest income, loans or dividends or other means, from its subsidiaries. The Company generated additional cash to fund its $48.25 million obligations under the AMS waiver and release agreements from loans and dividends from offshore insurance subsidiaries, reimbursements under tax sharing agreements with subsidiaries and dividends from non-insurance subsidiaries.

Payment by UICI of the capital contributions to AMS pursuant to the terms of the waiver and release agreements had a material adverse effect during the quarter ended September 30, 2003 upon the liquidity of the Company at the holding company level. The Company currently anticipates that it will be able to fund its future estimated cash requirements at the holding company level with cash currently on hand and cash generated from the sources set forth above, plus dividends from regulated domestic insurance subsidiaries. However, there can be no assurance that the cash requirements at the holding company level will not exceed current estimates.

On October 29, 2003, UICI executed a definitive agreement with SLM Corporation ("Sallie Mae"), pursuant to which UICI will sell its entire equity interest in AMS. The Company has estimated that the sale of AMS to Sallie Mae, if and when completed, will generate net cash proceeds to UICI of approximately $25.3 million. See Note C of Notes to Condensed Consolidate Financial Statements.

The Company intends to adhere to its historical policy with regard to dividends from its regulated domestic insurance company subsidiaries. The Company's domestic insurance company subsidiaries have not paid cash dividends in 2003. These subsidiaries will be able to pay $39.1 million in cash dividends to the UICI holding company in December 2003 in the ordinary course of business without prior approval of the regulatory authorities. However, as has been its policy in the past, during the fourth quarter of 2003 the Company will assess the results of operations of the regulated domestic insurance companies to determine the prudent dividend capability of the subsidiaries, consistent with UICI's practice of maintaining risk-based capital ratios at each of the Company's domestic insurance subsidiaries significantly in excess of minimum requirements. Historically, the Company has not received dividends from its regulated domestic insurance subsidiaries in the full amount that it could otherwise receive without prior regulatory approval.

During the nine months ended September 30, 2003, the Company at the holding company level reduced its consolidated short and long-term indebtedness (exclusive of indebtedness incurred to fund student loans) from $7.9 million at December 31, 2002 to $4.0 million at September 30, 2003.

On January 25, 2002, the Company entered into a three-year bank credit facility with Bank of America, NA and LaSalle Bank National Association. Under the facility, the Company may borrow from time to time up to $30.0 million on a revolving, unsecured basis. Loans outstanding under the facility will bear interest at the option of the Company at prime plus 1% or LIBOR plus 1%. The Company intends to utilize the proceeds of the facility for general working capital purposes. The Company has not to date borrowed any funds under the facility.

See Note C of Notes to Condensed Consolidated Financial Statements for a discussion of various financing facilities entered into by AMS.

STOCK REPURCHASE PLAN

In November 1998, the Company's Board of Directors authorized the repurchase of up to 4,500,000 shares of the Company's Common Stock. The shares were authorized to be purchased from time to time on the open market or in

private transactions. As of December 31, 2000, the Company had repurchased 198,000 shares pursuant to such authorization, all of which were purchased in 1999. At its regular meeting held on February 28, 2001, the Board of Directors of the Company reconfirmed the Company's 1998 share repurchase program. Following reconfirmation of the program the Company had purchased an additional 3.3 million shares pursuant to the program (with the most recent purchase made on March 12, 2003) at an aggregate cost of $43.2 million, or $12.98 per share. The timing and extent of additional repurchases, if any, will depend on market conditions and the Company's evaluation of its financial resources at the time of purchase.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to health and life insurance claims and reserves, deferred acquisition costs, bad debts, impairment of investments, intangible assets, income taxes, financing operations and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Effective January 1, 2003, the Company's SEA Division made adjustments to its reserve methodology and certain changes in accounting estimates, the net effect of which decreased reserves and correspondingly increased operating income in the amount of $4.8 million in the first quarter of 2003. See Note A of Notes to Condensed Consolidated Financial Statements.

PRIVACY INITIATIVES

Recently-adopted legislation and regulations governing the use and security of individuals' nonpublic personal data by financial institutions, including insurance companies, may have a significant impact on the Company's business and future results of operations.

Gramm-Leach-Bliley Act and State Insurance Laws and Regulations

The business of insurance is primarily regulated by the states and is also affected by a range of legislative developments at the state and federal levels. The Financial Services Modernization Act of 1999 (the so-called Gramm-Leach-Bliley Act, or "GLBA") includes several privacy provisions and introduces new controls over the transfer and use of individuals' nonpublic personal data by financial institutions, including insurance companies, insurance agents and brokers and certain other entities licensed by state insurance regulatory authorities. Additional federal legislation aimed at protecting the privacy of nonpublic personal financial and health information is proposed and over 400 state privacy bills are pending.

GLBA provides that there is no federal preemption of a state's insurance related privacy laws if the state law is more stringent than the privacy rules imposed under GLBA. Accordingly, state insurance regulators or state legislatures will likely adopt rules that will limit the ability of insurance companies, insurance agents and brokers and certain other entities licensed by state insurance regulatory authorities to disclose and use non-public information about consumers to third parties. These limitations will require the disclosure by these entities of their privacy policies to consumers and, in some circumstances, will allow consumers to prevent the disclosure or use of certain personal information to an unaffiliated third party. Pursuant to the authority granted under GLBA to state insurance regulatory authorities to regulate the privacy of nonpublic personal information provided to consumers and customers of insurance companies, insurance agents and brokers and certain other entities licensed by state insurance regulatory authorities, the National Association of Insurance Commissioners has recently promulgated a new model regulation called Privacy of Consumer Financial and Health Information Regulation. Some states issued this model regulation before July 1, 2001, while other states must pass certain legislative reforms to implement new state privacy rules pursuant to GLBA. In addition, GLBA requires state insurance regulators to establish standards for administrative, technical and physical safeguards pertaining to customer records and information to (a) ensure their security and confidentiality, (b) protect against anticipated threats and hazards to their security and integrity, and (c) protect against unauthorized access to and use of these records and information. However, no state insurance

regulators have yet issued any final regulations in response to such security and confidentiality requirements. The privacy and security provisions of GLBA will significantly affect how a consumer's nonpublic personal information is transmitted through and used by diversified financial services companies and conveyed to and used by outside vendors and other unaffiliated third parties.

Due to the increasing popularity of the Internet, laws and regulations may be passed dealing with issues such as user privacy, pricing, content and quality of products and services, and those regulations could adversely affect the growth of the online financial services industry. If Internet use does not grow as a result of privacy or security concerns, increasing regulation or for other reasons, the growth of UICI's Internet-based business would be hindered. It is not possible at this time to assess the impact of the privacy provisions on UICI's financial condition or results of operations.

Health Insurance Portability and Accountability Act of 1996

The federal Health Insurance Portability and Accountability Act of 1996 ("HIPAA") contains provisions requiring mandatory standardization of certain communications between health plans (including health insurance companies), electronic clearinghouses and health care providers who transmit certain health information electronically. HIPAA requires health plans to use specific data-content standards, mandates the use of specific identifiers (e.g., national provider identifiers and national employer identifiers) and requires specific privacy and security procedures. HIPAA authorized the Secretary of the federal Department of Health and Human Services ("HHS") to issue standards for the privacy and security of medical records and other individually identifiable patient data.

In December 2000, HHS issued final regulations regarding the privacy of individually-identifiable health information. This final rule on privacy applies to both electronic and paper records and imposes extensive requirements on the way in which health care providers, health plan sponsors, health insurance companies and their business associates use and disclose protected information. Under the new HIPAA privacy rules, the Company is required to (a) comply with a variety of requirements concerning its use and disclosure of individuals' protected health information, (b) establish rigorous internal procedures to protect health information and (c) enter into business associate contracts with other companies that use similar privacy protection procedures. The final rules do not provide for complete federal preemption of state laws, but, rather, preempt all contrary state laws unless the state law is more stringent. The Company believes that it was in material compliance with the privacy requirements imposed by HIPAA and the rules thereunder as of April 14, 2003, the date the rules became effective.

Sanctions for failing to comply with standards issued pursuant to HIPAA include criminal penalties of up to $250,000 per violation and civil sanctions of up to $25,000 per violation. Due to the complex and controversial nature of the privacy regulations, they may be subject to court challenge, as well as further legislative and regulatory actions that could alter their effect.

In August 2000, HHS published for comment proposed rules related to the security of electronic health data, including individual health information and medical records, for health plans, health care providers, and health care clearinghouses that maintain or transmit health information electronically. The proposed rules would require these businesses to establish and maintain responsible and appropriate safeguards to ensure the integrity and confidentiality of this information. The standards embraced by these rules include the implementation of technical and organization policies, practices and procedures for security and confidentiality of health information and protecting its integrity, education and training programs, authentication of individuals who access this information, system controls, physical security and disaster recovery systems, protection of external communications and use of electronic signatures. The final HIPAA security rules were issued by the HHS in February 2003, and the compliance date for HIPAA covered entities is April 21, 2005.

UICI is currently reviewing the potential impact of the HIPAA privacy regulations on its operations, including its information technology and security systems. The Company cannot at this time predict with specificity what impact (a) the recently adopted final HIPAA rules governing the privacy of individually-identifiable health information and (b) the proposed HIPAA rules for ensuring the security of individually-identifiable health information may have on the business or results of operations of the Company. However, these new rules will likely increase the Company's burden of regulatory compliance with respect to its life and health insurance products and other information-based products, and may reduce the amount of information the Company may disclose and use if the Company's customers do not consent to such disclosure and use. There can be no assurance that the restrictions and duties imposed by the recently adopted final rules on the privacy of individually-identifiable health information, or the proposed rule on security of individually-identifiable health information, will not have a material adverse effect on UICI's business and future results of operations.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements set forth herein or incorporated by reference herein from the Company's filings that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Actual results may differ materially from those included in the forward-looking statements. These forward-looking statements involve risks and uncertainties including, but not limited to, the ability to resolve all of the collateral and reporting issues associated with AMS' securitized student loan financings, including compliance with waivers obtained from third parties with respect to such student loan financings; AMS' ability to prevent similar future occurrences; AMS' ability to meet future student loan funding obligations; the Company's ability to maintain adequate liquidity to satisfy its obligations; changes in general economic conditions, including the performance of financial markets, and interest rates; competitive, regulatory or tax changes that affect the cost of or demand for the Company's products; health care reform; the ability to predict and effectively manage claims related to health care costs; and reliance on key management and adequacy of claim liabilities.

The Company's future results will depend in large part on accurately predicting health care costs incurred on existing business and upon the Company's ability to control future health care costs through product and benefit design, underwriting criteria, utilization management and negotiation of favorable provider contracts. Changes in mandated benefits, utilization rates, demographic characteristics, health care practices, provider consolidation, inflation, new pharmaceuticals/technologies, clusters of high-cost cases, the regulatory environment and numerous other factors are beyond the control of any health plan provider and may adversely affect the Company's ability to predict and control health care costs and claims, as well as the Company's financial condition, results of operations or cash flows. Periodic renegotiations of hospital and other provider contracts coupled with continued consolidation of physician, hospital and other provider groups may result in increased health care costs and limit the Company's ability to negotiate favorable rates. In addition, the Company faces competitive and regulatory pressure to contain premium prices. Fiscal concerns regarding the continued viability of government-sponsored programs such as Medicare and Medicaid may cause decreasing reimbursement rates for these programs. Any limitation on the Company's ability to increase or maintain its premium levels, design products, implement underwriting criteria or negotiate competitive provider contracts may adversely affect the Company's financial condition or results of operations.

The Company's insurance subsidiaries are subject to extensive regulation in their states of domicile and the other states in which they do business under statutes that typically delegate broad regulatory, supervisory and administrative powers to state insurance departments and agencies. State insurance departments have also periodically conducted and continue to conduct financial and market conduct examinations and other inquiries of UICI's insurance subsidiaries. State insurance regulatory agencies have authority to levy monetary fines and penalties resulting from findings made during the course of such examinations and inquiries. Historically, the Company's insurance subsidiaries have from time to time been subject to such regulatory fines and penalties. While none of such fines or penalties individually or in the aggregate have to date had a material adverse effect on the results of operations or financial condition of the Company, the Company could be adversely affected by increases in regulatory fines or penalties an/or changes in the scope, nature and/or intensity of regulatory scrutiny and review.

The Company provides health insurance products to consumers in the self-employed market in 44 states. A substantial portion of such products is issued to members of various independent membership associations that endorse the products and act as the master policyholder for such products. The two principal membership associations in the self-employed market for which the Company underwrites insurance are the National Association for the Self-Employed ("NASE") and the Alliance for Affordable Services ("AAS"). The associations provide their membership with a number of endorsed benefits and products, including health insurance underwritten by the Company. Subject to applicable state law, individuals generally may not obtain insurance under an association's master policy unless they are also members of the associations. UGA agents and Cornerstone agents also act as field service representatives on behalf of the associations, in which capacity the agents act as enrollers of new members for the associations and provide field support services, for which the agents receive compensation. Specialized Association Services, Inc. (a company controlled by the adult children of the Chairman of the Company) provides administrative and benefit procurement services to the associations, and a subsidiary of the Company sells new membership sales leads to the enrollers and video and print services to the associations and to Specialized Association Services, Inc. In addition to health insurance premiums derived from the sale of health insurance, the Company receives fee income from the associations, including fees associated with the enrollment of new members,

36

fees for association membership marketing and administrative services and fees for certain association member benefits. The agreements with these associations requiring the associations to continue as the master policyholder and to endorse the Company's insurance products to their respective members are terminable by the Company and the associations upon not less than one year's advance notice to the other party.

Articles in the press have been critical of association group coverage. In December 2002, the National Association of Insurance Commissioners (NAIC) convened a special task force to review association group coverage, and the Company is aware that selected states are reviewing the laws and regulations under which association group policies are issued. The Company has also recently been named a party to several lawsuits challenging the nature of the relationship between the Company's insurance companies and the associations that have endorsed the insurance companies' health insurance products. While the Company believes it is providing association group coverage in full compliance with applicable law, changes in the relationship between the Company and the membership associations and/or changes in the laws and regulations governing so-called "association group" insurance (particularly changes that would subject the issuance of policies to prior premium rate approval and/or require the issuance of policies on a "guaranteed issue" basis) could have a material adverse impact on the financial condition, results of operations and/or business of the Company.

The Company's Academic Management Services Corp. business could be adversely affected by changes in the Federal Higher Education Act of 1965, which authorizes and governs most federal student aid and student loan programs, and/or changes in other relevant federal or state laws, rules and regulations. The Higher Education Act is subject to review and reauthorization by the recently convened 108th Congress. Congress last reauthorized the Higher Education Act in 1998. While the Company believes that the Higher Education Act of 1965 will in fact be reauthorized, there can be no assurance of the form that reauthorization will take or the changes that the reauthorization bill will bring to the law and regulations governing student finance.

In addition, existing legislation and future measures by the federal government may adversely affect the amount and nature of federal financial assistance available with respect to loans made through the U.S. Department of Education. Finally, the level of competition currently in existence in the secondary market for loans made under the Federal Loan Programs could be reduced, resulting in fewer potential buyers of the Federal Loans and lower prices available in the secondary market for those loans.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates, and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded.

The primary market risk to the Company's investment portfolio is interest rate risk associated with investments and the amount of interest that policyholders expect to have credited to their policies. The interest rate risk taken in the investment portfolio is managed relative to the duration of the policy liabilities. The Company's investment portfolio consists mainly of high quality, liquid securities that provide current investment returns. The Company believes that the annuity and universal life-type policies are generally competitive with those offered by other insurance companies of similar size. The Company does not anticipate significant changes in the primary market risk exposures or in how those exposures are managed in the future reporting periods based upon what is known or expected to be in effect in future reporting periods.

The events at AMS occurring in July 2003 had the immediate effect of increasing AMS' cost of borrowings used to fund AMS' student loan originations, which increase has negatively impacted and will continue to negatively impact the amount of student loan interest spread income that AMS may earn in future periods. Accordingly, the Company has determined that, for the indefinite future, AMS will originate and sell student loans rather than originate and hold student loans in AMS' portfolio. Nevertheless, if and to the extent that AMS continues to hold student loans in its portfolio, profitability of the student loans will be affected by the spreads between the interest yield on the student loans and the cost of the funds borrowed under the various credit facilities. Although the interest rates on the student loans and the interest rate on the credit facilities are variable, the gross interest earned by lenders on Stafford student loans uses the results of 91-day T-bill auctions as the base rate while the base rate on the credit facilities is LIBOR. The effect of rising interest rates on earnings on Stafford loans is generally small, as both revenues and costs adjust to new market levels. In addition to Stafford loans, the Company holds PLUS loans on which the interest rate yield is set annually beginning July 1 through June 30 by regulation at a fixed rate. The Company held approximately $152.1 million principal amount of PLUS loans at September 30, 2003. The fixed

yield on PLUS loans was 4.86% and 6.79% for the twelve months ended June 30, 2003 and 2002, respectively, and was reset to 4.22% for the twelve months beginning July 1, 2003. These loans are financed with borrowings whose rates are subject to reset, generally monthly. During the twelve months beginning October 1, 2003, the cost of borrowings to finance this portion of the student loan portfolio could rise or fall while the rate earned on the student loans will remain fixed.

Item 4 - Controls and Procedures

As of September 30, 2003, the Company's management, including William J. Gedwed (the Chief Executive Officer) and Mark D. Hauptman (the Principal Financial Officer), evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on that evaluation and except as disclosed in the following paragraphs, the Company's Chief Executive Officer and its Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective in timely alerting management, including the Chief Executive Officer and the Principal Financial Officer, to information about the Company required to be included in periodic Securities and Exchange Commission filings. Except as disclosed in the following paragraphs, there have been no significant changes in the Company's internal control over financial reporting that occurred that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting subsequent to the date of evaluation.

As discussed above (see Note C of Notes to Condensed Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Recent Developments - Academic Management Services Corp."), during July 2003 the Company became aware of a shortfall in the type and amount of collateral supporting two of the securitized student loan financing facilities entered into by three Special Purpose Subsidiaries of AMS. UICI determined (and has so advised the Audit Committee of its Board of Directors and KPMG LLP, its independent auditors) that a significant deficiency in AMS' internal control over financial reporting detracted from AMS' ability to timely monitor and accurately assess the impact of certain transactions relating to AMS' securitized student loan financing facilities, as would otherwise be expected in an effective financial reporting control environment.

The Audit Committee of UICI's Board of Directors, with the assistance of independent counsel, conducted an investigation into the matters and events leading to the announcement of the collateral shortfalls at AMS' student loan financing facilities. Based on that investigation, the Company believes that UICI's previously published consolidated financial statements have been fairly presented. Nevertheless, the Company and AMS have dedicated and will continue to dedicate resources to make corrections to the control deficiency at AMS. The Company has taken immediate steps to better integrate AMS' financial reporting function and information reporting systems to assure that accurate and consistent information concerning AMS's student loan funding facilities is transmitted to interested parties in a timely fashion. In addition, on July 17, 2003 the former president of AMS was put on leave and relieved of all responsibilities pending the completion of AMS' and UICI's ongoing investigation into the matter, and on August 15, 2003, the employment of the former president of AMS was terminated.

Notwithstanding the foregoing and as indicated in the certifications filed as Exhibits 31.1 and 31.2 to this Quarterly Report on Form 10-Q, the Company's Chief Executive Officer and the Principal Financial Officer have certified that, to the best of their knowledge, the financial statements, and other financial information included in this Quarterly Report on Form 10-Q, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of the dates, and for the periods presented, in this Report.

PART II. OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

The Company is a party to various material legal proceedings, all of which are described in Note J of Notes to the Consolidated Condensed Financial

Statements included herein and in the Company's Annual Report on Form 10-K filed for the year ended December 31, 2002 under the caption "Item 3 - Legal Proceedings." The Company and its subsidiaries are parties to various other pending legal proceedings arising in the ordinary course of business, including some asserting significant damages arising from claims under insurance policies, disputes with agents and other matters. Based in part upon the opinion of counsel as to the ultimate disposition of such lawsuits and claims, management believes that the liability, if any, resulting from the disposition of such proceedings will not be material to the Company's financial condition or results of operations.

ITEM 2 - Changes in Securities and Use of Proceeds

During the nine months ended September 30, 2003, the Company issued 61,182 shares of unregistered common stock pursuant to its 2001 Restricted Stock Plan.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

10.82	--	Amendment No. 1 dated October 17, 2003 to EFG-IV Waiver dated July 24, 2003, entered into by MBIA Insurance Corporation, Bank One, National Association, EFG-IV, LP, and Academic Management Services Corp.
10.83	--	Amendment No. 1 dated October 17, 2003 to AMS-I Waiver dated July 24, 2003, ente into by MBIA Insurance Corporation, AMS-1 2002, LP, and Academic Management Serv Corp.
10.84	--	Amendment dated October 2, 2003 to Master Repurchase Agreement dated August 7, 2003, between Lehman Brothers Bank, FSB, and Academic Management Services Corp.
31.1	--	Principal Executive Officer's Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	--	Principal Financial Officer's Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	--	Certification Pursuant to 18 U.S.C. Section 1350 (Section 906 of Sarbanes-Oxley

(b) Reports on Form 8-K.

1. Current Report on Form 8-K dated July 21, 2003
2. Current Report on Form 8-K dated August 4, 2003
3. Current Report on Form 8-K dated August 20, 2003
4. Current Report on Form 8-K dated September 15, 2003
5. Current Report on Form 8-K dated October 30, 2003
6. Current Report on Form 8-K dated November 6, 2003

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UICI
(Registrant)

Date: November 14, 2003

/s/ William J. Gedwed

William J. Gedwed, President,
Chief Executive Officer and Director

Date: November 14, 2003

/s/ Mark D. Hauptman

Mark D. Hauptman, Vice President, Chief
Accounting Officer and Chief Financial Officer